



**GOVERNMENT OF THE REPUBLIC OF CROATIA**

A graphic consisting of two solid red squares. One square is positioned to the left of the other, and they are arranged in a way that they appear to be part of a larger design, possibly representing the Croatian flag's checkerboard pattern.

# **National Reform Programme 2017**

**APRIL, 2017**

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## List of Abbreviations and Acronyms

<b>AIC</b>	<b>Agency for Investments and Competitiveness</b>
<b>APIS IT</b>	Information Systems and Information Technologies Support Agency Ltd.
<b>AVETAЕ</b>	Agency for Vocational Education and Training and Adult Education
<b>ETTA</b>	Education and Teacher Training Agency
<b>GDP</b>	Gross Domestic Product
<b>CDB</b>	Cadastral Database
<b>CEF</b>	Connecting Europe Facility
<b>RSC</b>	Restructuring and Sale Centre
<b>CIGC</b>	Career Information and Guidance Centre
<b>COP System</b>	Central Payroll System
<b>DAE</b>	Digital Agenda for Europe
<b>SGA</b>	State Geodetic Administration
<b>CBS</b>	Central Bureau of Statistics
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>ECVET</b>	European Credit system for Vocational Education and Training
<b>ERDF</b>	European Regional Development Fund
<b>EFSI</b>	European Fund for Strategic Investments
<b>EEA</b>	European Economic Area
<b>EC</b>	European Commission
<b>EOJN Portal</b>	Electronic Public Procurement Classifieds Portal
<b>EPBD</b>	Energy Performance of Buildings Directive
<b>EIAH</b>	European Investment Advisory Hub
<b>ESF</b>	European Social Fund
<b>ESIF</b>	European Structural and Investment Funds
<b>ESPD</b>	European Single Procurement Document
<b>ESSPROS</b>	European System of Social Protection Statistics
<b>EU</b>	European Union
<b>FEAD</b>	Fund for European Aid to the Most Deprived
<b>FINA</b>	Financial Agency
<b>EPEEF</b>	Environmental Protection and Energy Efficiency Fund



<b>HAMAG-BICRO</b>	Croatian Agency for SMEs, Innovations and Investments
<b>CCE</b>	Croatian Chamber of Economy
<b>CROQF</b>	Croatian Qualifications Framework
<b>CNB</b>	Croatian National Bank
<b>CCTC</b>	Croatian Chamber of Trades and Crafts
<b>HROTE</b>	Croatian Energy Market Operator Ltd.
<b>CIPH</b>	Croatian Institute of Public Health
<b>CPII</b>	Croatian Pension Insurance Institute
<b>CIT</b>	Croatian Institute of Telemedicine
<b>CITM</b>	Croatian Institute for Transfusion Medicine
<b>CES</b>	Croatian Employment Service
<b>CHIF</b>	Croatian Health Insurance Fund
<b>ICT</b>	Information and Communication Technology
<b>IPA</b>	<i>Instrument for Pre-Accession Assistance</i>
<b>IRCRO Programme</b>	Research and Development Programme
<b>ISUDIO Project</b>	State Asset Management Information System
<b>ISPU Application</b>	Physical Planning Information System
<b>IT</b>	Information Technology System
<b>OSS</b>	Unified Social Transaction Centre – One Stop Shop
<b>JCMS</b>	Misdemeanour Court Joint Case Management System
<b>ULRSG</b>	Units of Local and Regional Self-Government
<b>ULSG</b>	Units of Local Self-Government
<b>MSP</b>	Ministry of State Property
<b>MDFYSP</b>	Ministry of Demographics, Family, Youth and Social Policy
<b>MF</b>	Ministry of Finance
<b>MCP</b>	Ministry of Construction and Physical Planning
<b>MEC</b>	Ministry of Entrepreneurship and Crafts
<b>MIS</b>	Management Information System
<b>MISOSS</b>	Management Information System for administration and payment of fees in One Stop Shop
<b>MSTI</b>	Ministry of the Sea, Transport and Infrastructure
<b>MJ</b>	Ministry of Justice
<b>MA</b>	Ministry of Agriculture
<b>MLPS</b>	Ministry of Labour and Pension System
<b>MRDEUF</b>	Ministry of Regional Developments and EU Funds
<b>SME</b>	Small and Medium-sized Enterprise
<b>MPA</b>	Ministry of Public Administration
<b>MSE</b>	Ministry of Science and Education
<b>MEE</b>	Ministry of Environment and Energy
<b>NCEEE</b>	National Centre for External Evaluation of Education
<b>NGA</b>	Next Generation Access
<b>NIAS</b>	National Identification and Authentication System
<b>NAEMIS</b>	National Adult Education Management Information System
<b>NCVE</b>	National Curriculum for Vocational Education
<b>OG</b>	Official Gazette
<b>NCF</b>	National Curriculum Framework for preschool education, general compulsory and secondary school education
<b>NPL</b>	Non Performing Loans, loans defined as either in default or close to being in default in accordance with the Croatian National Bank Decision on the classification of placements and off-balance sheet liabilities of credit institutions
<b>NRP</b>	National Reform Programme
<b>OIB</b>	Personal Identification Number



<b>RES</b>	Renewable Energy Sources
<b>OP</b>	Operational Programme
<b>VAT</b>	Value Added Tax
<b>PoC</b>	Proof of Concept
<b>pp</b>	Percentage Point
<b>TA</b>	Tax Administration
<b>PHC</b>	Primary Healthcare
<b>RAZUM Programme</b>	Development of Knowledge-Based Companies (funding programme)
<b>RC</b>	Republic of Croatia
<b>SCM</b>	Standard Cost Model
<b>SOCPP</b>	State Office for Central Public Procurement
<b>SHC</b>	Secondary Healthcare
<b>SocSkrb Application</b>	Social Welfare Information System
<b>SRSP</b>	Structural Reform Support Programme
<b>STEM</b>	Science, Technology, Engineering and Mathematics
<b>MCS</b>	Management Control System
<b>SAB</b>	State Administration Bodies
<b>TTO</b>	Technology Transfer Office
<b>LO</b>	Legislation Office
<b>VNFIL</b>	Validation of Non-Formal and Informal Learning
<b>GRC</b>	Government of the Republic of Croatia
<b>WBL</b>	Work-based Learning
<b>GMB</b>	Guaranteed Minimum Benefit
<b>GAPA</b>	General Administrative Procedure Act



## Foreword

The European Semester is a cycle of economic and fiscal policy coordination within the European Union (EU), within whose framework Member States align their policies with due economic policy at EU level. The participation in the European Semester is the responsibility of each EU Member State. The Republic of Croatia (RC) has been participating in the European Semester process since 2014. Main obligations arising from the participation in the European Semester are the preparation of annual National Reform Programmes and Convergence Programmes, i.e. the Stability Programme for the Euro Area Member States.

This year's European Semester cycle began in November 2016 with the publication of three key documents: Annual Growth Survey, Alert Mechanism Report and Employment Report. The Alert Mechanism Report prescribed an in-depth analysis to be conducted in the Republic of Croatia, along with 12 other EU Member States. The results of such in-depth analysis were published within the Country Report – Croatia of 22 February 2017. The Country Report – Croatia specifically points out the low medium-term potential of economic growth and the continuously low rate of labour force activity combined with the high unemployment rate that weigh down the growth potential, as well as the need to capitalise the growth of investments and improve the business environment in order to increase the potential growth of gross domestic product (GDP). The European Commission (EC) has determined that the Republic of Croatia records excessive macroeconomic imbalances and has achieved only a limited progress in the implementation of Country Specific Recommendations (CSR). The Republic of Croatia is therefore stuck in the preventive mechanism of the process applied in case of macroeconomic imbalances. Moreover, according to the EU Council Decision of 21 January 2014, the Republic of Croatia remains in a situation of excessive budget deficit.

In order to respond to structural challenges of the Croatian economy, reduce macroeconomic imbalances and achieve the objectives of the Europe 2020 strategy – a European strategy for smart, sustainable and inclusive growth (hereinafter: the Europe 2020 strategy), the Republic of Croatia has developed a National Reform Programme (NRP) that defines measures and activities that the Republic of Croatia will implement in the next 12 to 18 months. This year's NRP was coordinated with the Inter-Ministerial Working Group for European Semester in accordance with the Decision on coordination of activities within the European Union's Economic Governance Framework<sup>1</sup>, which the Government of the Republic of Croatia (GRC) adopted by the Conclusion of its session held on 27 April 2017.

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<sup>1</sup> OG, No. 13/17



## 1. Introduction

After several years of crisis, the Croatian economy experienced a modest recovery in 2015, with positive economic trends intensifying throughout 2016 following favourable borrowing conditions on world markets, the implementation of fiscal consolidation and debt stabilisation processes, increased household consumption and the growth of export driven by the strong contribution of the tourism sector. The GDP has thus in 2016 realistically risen by 2.9% compared to 2015, which is 0.1 percentage point (pp) more than indicated by economic forecasts for winter suggested by the EC. The Republic of Croatia is, however, still facing excessive macroeconomic imbalances and low potential of growth. Favourable macroeconomic developments without doubt represent an additional incentive to implement structural reforms that will ensure a long-term sustainable economic growth and employment, as well as macroeconomic stability.

From the viewpoint of principal objectives to be achieved by 2020 set by the Government of the Republic of Croatia for the mandate 2016-2020 and taking into account special recommendations of the EU Council, as well as the findings of the Country Report – Croatia, this year's NRP defines reform measures and activities that will contribute to achieving long-term sustainable economic growth, an increase in employment, the creation of new jobs and the reduction of macroeconomic imbalances.

Accordingly, the NRP defines three main objectives:

1. Strengthening economic competitiveness
2. Increasing employability and aligning education with labour market needs
3. Sustainability of public finances

The implementation of 53 reform measures (hereinafter: measures) in 12 reform areas will contribute to the achievement of these main objectives. An overview of reform areas according to objectives is provided below, planned measures are described in Chapter 4: Main Objectives, Reform Areas and Economic Policy Measures, while the table in Annex 1 lists the activities for the implementation of measures.

### **Strengthening the Economic Competitiveness:**

1. Improving the business environment
2. Improving the disposition and management of state assets
3. Effective human resources management and provision of public administration services
4. Removal of institutional, organisational and functional fragmentation in public administration
5. Improving the efficiency of the judicial system

The economic and development policy will be based on improvement of the business environment in which the private sector stimulates economic development. Improving the business environment will contribute to the quality of public administration and policies for the economy, thus creating long-term conditions for improving the competitiveness indicators of the Croatian economy according to relevant global methodologies. The unification of inspection services in economy and further reduction of administrative costs and non-tax payments will free entrepreneurs and craftsmen from any additional burden.

Better management and stronger business performance of companies will through the introduction of mid-term planning and closer control of their operations, along with the reduction of state portfolio, the activation of unused state property and the restructuring of companies facing challenges enable greater potential for the development of state property.



The undertaken activities will increase the efficiency of institutions, including the simplification of rules and the acceleration of administration and court processes. Increasing the efficiency of public administration will be achieved primarily through effective human resources management and the revision of the payroll system which will stimulate expertise and award the performance of each employee. We intend to perform the overall normative organisation of state administration and its operations, rationalisation of the system of legal entities with agency type public authority, as well as the rationalisation of first-instance bodies and regional units of state administration bodies (SAB). Establishing a unique way of communicating with SABs along with the digitisation of processes, linking of various SABs and further development of e-services will contribute enhanced provision of public services.

Our efforts will focus on increasing the legal certainty and efficiency of the judicial system. This will shorten the length of court proceedings and reduce the number of unresolved cases by relieving the burden on the courts. We will also take measures to improve the organisation of workload and management of judicial bodies, as well as strengthen professionalism throughout the judiciary.

#### **Increasing Employability and Aligning Education with Labour Market Needs:**

1. Implementation of education, lifelong learning and labour market integration programmes
2. Harmonisation of educational programmes with labour market needs at the level of vocational and higher education
3. Implementation of the education reform

Given the high level of unemployment among the young and the long-term unemployed, special attention will be devoted to the activation and education of young and long-term unemployed persons. Reform of the education system will be carried out with the aim of modernising it so as to be able to respond to the needs of the labour market, with focus on the promotion of lifelong learning. In order to achieve a faster and better alignment of educational programmes with the needs of the labour market at the level of vocational and higher education, we plan to continue the establishment of the institutional framework for the implementation of the Croatian Qualifications Framework (CROQF), as well as to modernise and improve the system at the level of early, preschool, primary and secondary education.

#### **Sustainability of Public Finances:**

1. Strengthening the framework for public financial management and implementation of fiscal consolidation
2. Reduction of healthcare arrears and sustainability of the healthcare system
3. Improving the efficiency of the social benefits system
4. Ensuring the long-term sustainability of the pension system

We will continue to strengthen the sustainability of public finances, as the stability of public finances represents the foundation of not just the lasting economic growth, but also overall economic stability. This means a further reduction of the budget deficit, which will lead to a reduction of public debt in GDP, thereby improving the state credit rating and reducing the borrowing cost for both the state and the private sector. Improving the efficiency of the use of European Structural and Investment Funds (ESIF) is a permanent task of the Government of the Republic of Croatia and all state institutions. In the same way, the permanent task of all state institutions is to continue to improve business processes related to awarding grants with a view to simplify and speed up the process in order to increase the absorption of EU funds and reduce financing from state budget funds, in addition to the preparation of projects and using and promoting all other European sources of financing.





The adoption of the National Plan for the Development of Hospitals will improve the quality of health services and healthcare in general. Measures will be designed to stimulate the stay of young doctors in the Republic of Croatia and provide faster and easier access to specialisation, while EU Funds will be used to finance the continuing professional development of medical doctors. The rationalisation of spending will be ensured through the control of the scope and the quality of provision of services of all health entities.

The reform of the social protection system will be carried out with an emphasis on the area of social welfare and social benefits system with the aim of increasing its efficiency, transparency and fairness, as well as ensuring its sustainability.

The pension system requires further reform in order to ensure adequate pensions and fiscal sustainability in the long run.

Given that the European Semester is pursuing and monitoring activities aimed at achieving the objectives of the Europe 2020 strategy, fulfilling European commitments requires a strong response of the Republic of Croatia to economic challenges and achievement of main objectives set by the Europe 2020 strategy. The strategy has five key objectives including employment, research and development, climate and energy, education, and combating poverty and social exclusion. Each EU Member State has established its own national goal in each of these areas. The objectives, measures and activities of the Republic of Croatia in relation to the Europe 2020 strategy are outlined in Chapter 6. Measures and progress towards achieving the main objectives of the Europe 2020 strategy specified in the table in Annex 2 above all refer to the following:

- promoting the employment of the young and the long-term unemployed
- strengthening the national innovation system and innovation potential of the economy
- improving the quality management system and financing of scientific organisations and fostering scientific excellence
- promoting energy efficiency and renewable energy sources
- transition to a circular economy
- introduction of scholarships for STEM fields (science, technology, engineering and mathematics)
- providing humanitarian aid in kind and other support programmes to the most deprived
- development of quality foster care and even distribution of accommodation in foster families across the Republic of Croatia
- intensifying the process of deinstitutionalisation and transformation of social welfare homes
- financing of long-term civil organisations' programmes with the aim of developing and expanding the network of social services
- co-funding the cost of education for students of lower socio-economic status and students with developmental disabilities.



## 2. Macroeconomic Perspective

The here presented macroeconomic framework was developed in April 2017, during the preparation of the Convergence Programme of the Republic of Croatia 2017-2020.<sup>2</sup> External assumptions for macroeconomic projections are for the most part taken from recent projections of the European Commission from February – “Winter 2017”.

During 2016, the growth in economic activity observed in 2015 accelerated following a six-year recession. The real growth of GDP amounted to 2.9%<sup>3</sup> and was primarily driven by the strengthening of domestic demand. At the same time the contribution of net foreign demand and inventory changes was negligible. Positive developments in economic activity are expected to continue in the medium term. The projected real growth of GDP in the amount of 3.2% for 2017 is expected to somewhat slow down to 2.8% in 2018, 2.6% in 2019 and 2.5% in 2020. Such slowdown regarding the projection period is the result of the convergence of GDP growth in relation to the growth of potential GDP in the medium term. Economic growth for the entire projection period will be based solely on domestic demand. The contribution of net foreign demand will be slightly negative throughout the projection period, although it is expected to gradually decrease towards the end of the period.

Table 1: Macroeconomic framework for the period 2017-2020

Indicators	2016	Projection 2017	Projection 2018	Projection 2019	Projection 2020
<b>GDP - real growth (%)</b>	<b>2.9</b>	<b>3.2</b>	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>
Household consumption	3.3	3.5	2.8	2.5	2.4
Government expenditure	1.7	1.3	0.8	0.8	0.8
Gross fixed capital formation	4.6	6.3	6.9	5.8	5.1
Export of goods and services	6.7	5.7	5.0	4.8	4.8
Import of goods and services	7.3	7.3	6.0	5.5	5.4
<b>Contributions to GDP growth (pp)</b>	<b>2.9</b>	<b>3.2</b>	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>
Household consumption	1.9	2.0	1.6	1.4	1.4
Government expenditure	0.3	0.3	0.2	0.2	0.2
Gross fixed capital formation	0.9	1.2	1.4	1.2	1.1
Changes in inventories	-0.1	0.1	0.0	0.0	0.1
Export of goods and services	3.3	2.9	2.7	2.6	2.6
Import of goods and services	-3.4	-3.5	-3.0	-2.9	-2.9
<b>Consumer price index growth (%)</b>	<b>-1.1</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>
<b>Employment growth* (%)</b>	<b>0.6</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>
<b>Unemployment rate, survey (%)</b>	<b>13.1</b>	<b>11.5</b>	<b>10.0</b>	<b>9.1</b>	<b>8.8</b>

\* National accounts definition.

Source: CBS; MF

The expected economic growth in 2017 was significantly impacted by the comprehensive tax reform implemented at the beginning of the year. The due multiplier effect was estimated at 0.5% of GDP. The initial effect of the reform was enabled by the estimated release of funds to the household and business enterprise sector in the amount of 0.5% and 0.2% of GDP, respectively. Taking into account the current economic cycle, the calculation of the multiplier effect presumes that both households and business enterprises will, in the first instance, spend, and, in the second instance, invest approximately 70% of released funds.

<sup>2</sup> The macroeconomic scenario is described in detail in the Convergence Programme of the Republic of Croatia 2017-2020.

<sup>3</sup> The data on GDP for 2015 and 2016 are provisional.



Household consumption will be the main driver of growth of domestic demand in the medium term. We predict that its growth will be the strongest in 2017, driven by the acceleration of real growth of disposable income of the population enabled by favourable labour market trends and significantly contributed to by the above mentioned tax reform, as well as the growth of salaries in the public sector. With the disappearance of these positive effects, the growth of household consumption is expected to gradually slow down in the coming years. In line with the continuation of fiscal consolidation, we do not expect a significant contribution of government spending to economic growth in the medium term. A significant incentive to this dynamic of investment activity is expected from the increased ESIF utilisation rates, as well as the continuation of favourable financing conditions. In addition, we expect further improvement of the investment climate in conditions of economic recovery, supported by the continuation of structural reforms that will make business for entrepreneurs much easier. The real growth of export of goods and services will be driven by foreign demand for domestic goods and services, while trends regarding the import of goods and services will be conditioned by the dynamics of final demand. However, the completion of the process of eradicating positive effects of accession to the EU common market will nevertheless act in the direction of somewhat lower dynamics of international trade in goods and services in the first years of the projection period.

Positive trends in economic activity had a favourable influence on the labour market in 2016, and similar developments are expected in the forthcoming period. Although a significant reduction of workforce was recorded in 2016, it is expected that such a trend will gradually be alleviated in the coming period. With the slowdown in the growth of employment towards the end of the projection period we also expect a reduction of the surveyed unemployment rate to below 9% by 2020. Even though we expect a moderate growth of labour productivity throughout the projection period, a faster growth of salaries will cause a unit labour cost increase of similar intensity.

We expect the conclusion of a three-year consumer price deflation period in 2017 which will primarily be enabled by the strengthening of inflationary import pressures related to prices of raw materials on the world market. Domestic factors, such as domestic demand and unit labour costs, should also move towards the growth of consumer price indices. Stable inflation of about 1.5% is expected throughout the medium term.



### 3. Progress in Implementation of EU Council Recommendations

On 12 July 2016, the Council of European Union recommended that the Republic of Croatia in 2016 and 2017 undertake activities aimed at as follows:

1. Ensure a durable correction of the excessive budget deficit by 2016. Thereafter, achieve an annual fiscal adjustment of at least 0,6 % of GDP in 2017. Use any windfall gains to accelerate the reduction of the general government debt ratio. By September 2016, reinforce numerical fiscal rules and strengthen the independence and the mandate of the Fiscal Policy Commission. By the end of 2016, improve budgetary planning and strengthen the multi-annual budgetary framework. By the end of 2016, start a reform of recurrent taxation of immovable property. Reinforce the framework for public debt management. Adopt and start implementing a debt management strategy for 2016-2018.
2. By the end of 2016, take measures to discourage early retirement, accelerate the transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme. Provide appropriate up- and re-skilling measures to enhance the employability of the working-age population, with a focus on the low-skilled and the long-term unemployed. Consolidate social protection benefits, including special schemes, by aligning eligibility criteria and integrating their administration, and focus support on those most in need.
3. By the end of 2016, start reducing fragmentation and improving the functional distribution of competencies in public administration to improve efficiency and reduce territorial disparities in the delivery of public services. In consultation with social partners, harmonise the wage-setting frameworks across the public administration and public services. Advance the divestment process of state assets and reinforce the monitoring of state-owned enterprises' performance and boards' accountability, including by advancing the listing of shares of state-owned companies.
4. Significantly reduce parafiscal charges. Remove unjustified regulatory restrictions hampering access to and the practice of regulated professions. Reduce the administrative burden on businesses.
5. Take measures to improve the quality and efficiency of the judicial system in commercial and administrative courts. Facilitate the resolution of non-performing loans, in particular by improving the tax treatment of the resolution of non-performing loans.

A review of progress made in implementing these recommendations is provided below.

#### **Recommendation 1:**

- a. Ensure a durable correction of the excessive budget deficit by 2016. Thereafter, achieve an annual fiscal adjustment of at least 0,6 % of GDP in 2017. Use any windfall gains to accelerate the reduction of the general government debt ratio.

Based on efforts undertaken for the purpose of fiscal consolidation, Croatia will implement the EU Council recommendations regarding the excessive budget deficit procedure, as well as the EU Council recommendation of July 2016 regarding ensuring the sustainable correction of excessive deficit by 2016.



We continued the implementation of fiscal consolidation in accordance with EU Council recommendations provided within the framework of the excessive budget deficit procedure during 2016. According to recommendations, it was necessary to reduce the general government deficit to 2.7% of GDP, i.e. make a structural effort in the amount of 1% of GDP in 2016. The data on budget execution for 2016 indicate that the budget deficit in the amount of 0.8% of GDP was significantly lower than the initially planned 2.6%<sup>4</sup> of GDP, i.e. the targeted deficit dictated by EU Council recommendations. The recommended structural effort of 1% of GDP was slightly exceeded at 1.1% of GDP. This created the conditions for meeting EU Council recommendations and allowed Croatia to depart from the excessive budget deficit procedure.

According to the Report on Excessive Budget Deficit and general government debt level for the period 2012-2016 calculated according to the ESA 2010 methodology, published by the Central Bureau of Statistics (CBS), public debt at the end of 2016 amounted to HRK 289.1 billion, which represents an annual decrease of HRK 505.3 million, making it the first recorded nominal decrease of debt at annual level since monitoring of statistical data on public debt movements began. Consequently, the share of public debt in GDP decreased from 86.7% at the end of 2015 to 84.2% of GDP by the end of 2016, which at the same time represents the largest reduction in the share of public debt in GDP since monitoring of statistical data on public debt movements began. The reduction of debt in regard to the previous period is a consequence of substantial reduction in general government budget deficit and the use of state deposit funds arising from borrowing in previous years. In addition, a positive contribution to debt reduction in 2016 arose from a modest appreciation of HRK against EUR, as well as income received from the activation of state property, namely privatisation receipts amounting to 0.2% of GDP.

Planned fiscal developments, both on the revenue and the expenditure side of the budget, will result in a general government deficit amounting to 1.3% of GDP in 2017, 0.8% of GDP in 2018, 0.3% of GDP in 2019 and a budget surplus of 0.5% of GDP in 2020. At the same time, projections also point to the reduction of the share of public debt in GDP by more than 10 pp during a five-year period, i.e. by the end of 2020, thereby meeting the core strategic objective of the Government of the Republic of Croatia defined in the Public Debt Management Strategy for the period 2017-2019.

The dynamics of fiscal consolidation are dealt with in detail in the Convergence Programme for the period 2017-2020.

For the purpose of implementation of the above mentioned EU Council recommendations we have carried out the following activities:

The draft Proposal of the Act on the Amendments to the Civil Servants Act entered the adoption procedure. Due to alignment with the provisions of the Labour Act<sup>5</sup>, it is proposed that civil servants and employees retire when they reach the age of 65 and at least 15 years of pensionable service, and not, as it is now, by the end of the year in which they have fulfilled the above mentioned conditions, with the option to remain at work by the end of the year in which they reached the age of 65 when the employer and the employee agree so in line with the needs of their service (for example work on a project, implementation of a strategy, etc.).

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<sup>4</sup> Planned by the Convergence Programme for the period 2016-2019.

<sup>5</sup> OG, No. 93/14



The Decision on prohibiting new recruitment of civil servants and employees in SABs, professional services and offices of Croatian Government<sup>6</sup> and the Decision on prohibiting new recruitment of civil servants and employees in public offices<sup>7</sup> were adopted in July 2016 with the aim to reduce expenditures. Furthermore, we adopted the Decision on granting authority to the Central Public Procurement Office for implementation of central public procurement procedures for contracting authorities not provided for in Article 12 of the Regulation on the internal organisation of the State Office for Central Public Procurement<sup>8</sup>, i.e. persons who are not subject to central public procurement, such as: the Office of the President of the Republic of Croatia, the Croatian Parliament, the Government of the Republic of Croatia, offices and professional services of the Croatian Government, central SABs. This Decision has extended the scope of users of centralised purchasing activities for categories of fuel and natural gas supply to other budgetary beneficiaries. Moreover, we adopted the Decision on procurement categories<sup>9</sup>, that the State Office for Central Public Procurement (SOCPP) procures for users of central public procurement, and which includes the following new categories: printing services, natural gas supply, security services, and airline tickets and hotel accommodation for official purposes.

In March 2017 we adopted the Guidelines for fleet management designed to ensure: purposeful use and management of the fleet; economical and efficient use of budget resources; environmentally sustainable use of the fleet; determination of vehicle class; appointment of persons responsible for fleet management; standardisation of procedure in fleet management; implementation of comprehensive IT system for fleet management; providing instructions for purchasing official vehicles intended for responsible persons; alignment of procedure in purchasing official vehicles, use of official vehicles, and monitoring and reporting on the use of official vehicles.

- b. By September 2016, reinforce numerical fiscal rules and strengthen the independence and the mandate of the Fiscal Policy Commission.

A new Fiscal Responsibility Act is being drafted. Its adoption is relevant for further improvement of the budgetary framework through better control mechanisms for planning and executing the expenditures of budgetary and extra-budgetary users, as well as activities of the Fiscal Policy Committee. In December 2016, we received new, final comments of the EC services, and in January 2017, we received comments by members of the Fiscal Policy Committee. We are currently supplementing the draft Proposal of the Fiscal Responsibility Act in accordance with received comments, upon which a public consultation procedure will be initiated.

Providing definitions to job descriptions related to the establishment and activities of the Working Group for Fiscal Statistics is in progress.

- c. By the end of 2016, improve budgetary planning and strengthen the multi-annual budgetary framework.

We have prepared the draft Proposal of the Act on the Amendments to the Budget Act and requested the EC opinion on the long-term budgetary framework. The content and dynamics of the adoption of the Act will depend on the outcome of consultations with the EC.

- d. By the end of 2016, start a reform of recurrent taxation of immovable property.

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<sup>6</sup> OG, No. 70/16

<sup>7</sup> OG, No. 70/16

<sup>8</sup> OG, No. 62/16

<sup>9</sup> OG, No. 64/16



In December 2016 we adopted the Act on Local Taxes<sup>10</sup>, which prescribes the introduction of real estate tax in effect from 1 January 2018, and which will replace municipal fees, holiday home tax and “direct” monument annuities, namely the three different types of tax which are currently being charged for real estate. We will simultaneously implement measures that will constitute the prerequisites for the application of value real estate tax, based on an assessment of real estate values under the Regulation on mass assessment of real estate values planned for adoption in 2017. This year's NRP, in addition to the adoption of the Regulation on mass assessment of real estate values, considers other activities in the function of securing the above mentioned preconditions (for example the preparation of project documentation for initiating a public procurement procedure regarding the creation of initial state of approximate value plans or price blocks, drafting and adoption of the Detailed Plan of Cadastral Surveys and the establishment and renewal of land registries; draft and adoption of the Plan for the Implementation of Functional Integration of Cadastre and Land Registry Departments; amendments to regulations that simplify land registry processes and implement electronic communication (Phase I), etc.).

The transitional and final provisions of the above mentioned Act prescribe the obligation of units of local self-government (ULSG) to update due municipal fee records with tax identification data, as well as data necessary to determine the two new coefficients: status and age, during 2017. The process of registering all real estate belonging to ULSGs and updating due data on surface areas, collection and payers of municipal fees has been completed. As a result of updating the municipal fee records, there was an increase of municipal fee revenue. The revenue from such fees therefore amounted to: HRK 2,148,540,223.91 for 2014; HRK 2,265,438,732.56 for 2015; and HRK 2,356,595,006.77 for 2016.

The existing legal remedies for municipal fees will be retained as a subject of taxation, with the obligation to charge additional tax on construction land, with additional clarification for premises that have been a subject of court proceedings in the payment of municipal fees (other auxiliary rooms and areas without specific purpose). The taxpayer is considered to be the person who is liable for payment of municipal fees in accordance with terminology contained in the Act on Ownership and Other Proprietary Rights (the owner, the user, and the real estate itself are all considered taxpayers). The method of tax calculation is identical to the calculation of municipal fees, with the addition of two new coefficients – the condition and the age of the real estate. Only real estate in the possession of ULSGs is exempt from taxation. In addition, the tax does not apply to the part of religious buildings where religious ceremonies are performed. ULSGs may pay the tax owed by socially vulnerable citizens through social transfers. The level of ULSG revenue will be retained through corrective coefficients of purpose that are currently realised by taxation of holiday homes and monument annuities.

In order for ULSGs to timely prepare for the collection of such tax, during 2017 they are obliged to undertake certain preparatory activities including the formation of the Record of Real Estate and Taxpayers, i.e. update the existing records on municipal fees with data essential for calculating the real estate tax. Pursuant to the Act on Local Taxes, and with the aim of facilitating the implementation of preparatory activities, the Ministry of Finance (MF), the Tax Administration (TA), the State Geodetic Administration (SGA) and the Ministry of Construction and Physical Planning (MCP) submitted the data that apply to persons who are considered taxpayers and real estate owners from their jurisdictions to ULSGs. For the purpose of further timely updating of these data, the MCP and the TA will provide ULSGs with data once a year, guided by the principle of official data exchange rather than their collection from taxpayers. However, ULSGs may also collect such data relevant to taxation in some other way. We have therefore already noticed the practice of individual ULSGs to call upon persons who are considered taxpayers of real estate tax to provide all data relevant to taxation themselves. The purpose of such action by ULSGs is to ensure the accuracy of

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<sup>10</sup> OG, No. 115/16



data in their records by using all available sources. This is considered crucial for the proper calculation of tax and ensuring taxpayer satisfaction. By 30 November 2017 all ULSGs must adopt the due Decision on real estate tax. Such decision will determine, within the scope of applicable law, coefficients that will affect the amount of tax. In the period from the receipt of central government data until the adoption of the decision (8 months), ULSGs may simulate revenue from taxes.

We are preparing an action plan with the obligation to produce an analysis of effects caused by the real estate tax in the previous calendar year and a report on activities implemented by institutions dealing with various aspects of real estate (ownership, spatial recognition of the real estate and its value) during the first quarter. The Croatian Government will adopt the action plan by conclusion.

By the beginning of 2017, 16 laws regulating the tax reform covering all segments of the tax system came into force. They are aimed at simplifying the system, spreading the tax base and providing tax relief for citizens and entrepreneurs.

A review of the tax reform is provided below.





## **Tax Reform**

For the purpose of meeting the main objectives set out in NRP 2016, we have conducted a comprehensive tax system analysis in the Republic of Croatia. In recent years, the tax system in the Republic of Croatia has been subject to frequent legal changes, which in certain cases led to difficulties in implementation and unintended omissions in the fulfilment of certain tax obligations by taxpayers, as well as erroneous interpretation of legal provisions. The analysis of the tax system was carried out in the second half of 2016 and, among other things, pointed to: higher tax burden on labour and profit achieved by legal entities than recorded in neighbouring countries, failure to meet certain tax expenditures, high level of administration regarding administrative tax and unequal treatment of TA offices regarding certain tax issues.

From the viewpoint of characteristics of the current tax system, the objectives of tax reform are set as follows:

- reduction of the total tax burden
- promotion of economic competitiveness
- development of a socially just tax system
- stable, sustainable and straightforward tax system
- simplification and reduction of tax administration
- reduction of costs related to the maintenance of records and elimination of unnecessary forms
- guarantee of greater legal certainty for taxpayers.

In order to meet the set tax reform objectives, 16 laws were passed, most of which came into force on 1 January 2017. They brought forward the following changes:

### **Changes to VAT Taxation**

In order to reduce the regressive impact of VAT, i.e. to enable the reduction of prices for those services and deliveries of goods that represent the highest percentage of the consumption of citizens with the lowest income, we have retained the 5% VAT rate, and redistributed the application of the 13% and 25% VAT rates. Changes to the application of the 13% VAT rate were made in order to: reduce the cost of public services for citizens and entrepreneurs (through the application of the reduced VAT rate on the supply of electricity and refuse collection), stimulate the development of agriculture (delivery of seedlings and seeds, fertilisers and pesticides, livestock feed and other agrochemicals), as well as lower the price of car seats for children, urns and coffins. To ensure that introduction of such reduced rates does not impact the amount of collected revenue, i.e. in order to maintain the level of revenue from VAT, catering services and distribution of sugar were transferred from the 13% rate grade to the 25% rate grade. We have adopted additional measures, effective from 1 January 2018, that aim to increase the liquidity of entrepreneurs: introduction of an option to apply VAT calculation (without prior payment of taxes) for import of investment equipment (from third countries), assertion of right to 50% input tax deduction on personal vehicles and other means of transport up to HRK 400,000 for all taxpayers, proposition of increasing the VAT threshold required for entry into the register of VAT taxpayers to HRK 300,000 that would simplify business of small taxpayers and reduce administrative costs.

### **Changes to Corporate Tax**

We have reduced the tax burden of all corporate taxpayers and introduced a special incentive for the development of small businesses and entrepreneurs who can now start their business activity with a reduction of the tax rate from 20% to 18%, and to 12% for taxpayers with an annual income of up to HRK 3 million. In order to prevent the impact of the introduction of reduced rates to the amount of



collected revenue, i.e. to maintain the level of revenue from this category of tax, we have abolished the tax relief for reinvested earnings and the tax relief for areas of ULSGs classified as Group II. Tax reliefs for the City of Vukovar were retained, while the tax relief pertaining to Group I was reduced by 50%. Moreover, we have implemented the option of lump sum taxation that applies to economic activities of non-profit organisations provided they do not earn revenue in excess of the amount required for obligatory entry into the VAT system on the basis of performance of such activity. For various associations, religious communities and similar institutions that occasionally provide hospitality or rental services, and which do not earn revenue in excess of the amount required for obligatory entry into the VAT system, and that deem the option of lump sum taxation a more favourable option than determining the tax obligation for a particular economic activity using accounting standards, this represents an extreme simplification of procedure. Small taxpayers (annual revenue up to HRK 3 million) have the option (there is no obligation) to make a correction to their revenue upon determining it, using accounting methods for the calculation of revenue, for certain cash and non-cash transactions, and determine their tax base based on the cash principle – as applied for crafts. According to the 2015 EU Council Recommendation, it is necessary to increase the ability of the financial sector to contribute to the recovery of the economy caused by challenges regarding bad massive loans to businesses and citizens, and mortgages in particular. The 2016 EU Council Recommendation proposes that credit institutions be given the option to recognise the amount of write-offs of receivables that are either hard to collect or uncollectable (NPL) on the day of 31 December 2015 as a tax deductible expense, i.e. a 2017 one-off measure with the aim of facilitating the resolution of bad loans, primarily by improving the tax treatment of bad loan resolution. The write-off process has been simplified for small debts and cases when certain collection measures are taken and the impossibility of collection has been established. In the sense of strengthening the taxation security and eliminating obstacles to the development of foreign and domestic investments, the option of concluding prior agreements on transfer pricing has been introduced.

### **Changes to Income Tax**

In order to reduce the tax burden on workers that is in the Republic of Croatia still relatively high compared to neighbouring countries and thus positively influence the labour market, entrepreneurial climate, competitiveness of Croatian workers on the international labour market, especially in high tech fields, as well as to positively influence the increase of employment and the reduction of tax evasion, especially for higher salaries, we have modified the rates for the calculation and payment of income tax advance from employment by introducing two separate rates: 24% and 36%, instead of the previous three rates, namely 12%, 25% and 40%, respectively. The 24% tax rate applies to the monthly tax base of up to HRK 17,500 (annual tax base up to HRK 210,000), while the 36% tax rate applies to the monthly tax base above HRK 17,500 (annual tax base above HRK 210,000). We have thereby, in fact, reduced the highest rate from 40% to 36% and narrowed down the band for the application of highest rates, i.e. the threshold for applying the highest rate was increased from HRK 13,200 to HRK 17,500. The same tax base and tax rates for determination of the advance on income tax also apply to taxpayers - pensioners and taxpayers from assisted areas and the area of the City of Vukovar, but the accrued advance on income tax that was determined in such a way will in their case be reduced by 50%.

In order to eliminate the negative effect of increasing the lowest rate from 12% to 24% for taxpayers with the lowest salaries, we have increased the basic personal allowance, i.e. the non-taxable portion of the income, to HRK 3,800 per month and equalised that amount for all taxpayers, as well as increased the personal allowance coefficients for dependent members of the family and children. In addition, in order to simplify the taxation process and ensure higher predictability of tax obligation for certain sources of income, we have implemented the procedure of final taxation during the tax period that applies to: income from real estate and real estate rights, income from capital and



income from insurance. This means that such income is not taken into account in the annual income tax calculation of taxpayer's total realised annual income for that tax period, and the tax that was paid following a deduction at prescribed rates on such income is considered final tax.

#### **Changes to Determination of Mandatory Contributions**

In order to relieve the disbursement of second income (realised by sales representatives, agents, court experts, etc.), we have reduced the rates of mandatory contributions by 50%. In order to ensure fairness and compensate for revenues due to the said reduction, we have expanded the base for determining contributions for second income by abolishing the relief that applied to pensioners, authors' and artists' fees.

#### **Changes to Real Estate Transfer Tax**

In accordance with objectives regarding simplification and tax relief related to taxpayers, as well as the creation of a just tax system, we have reduced the rate of real estate transfer tax from 5% to 4% and abolished the right of exemption from paying real estate tax for first time home buyers. Since we were able to establish a successful exchange of information between TA and public notaries, we have abolished the taxpayers' obligation to report turnover in order to relieve them of unnecessary administrative burden. The tax is determined ex officio, and the decision is made only upon determining due tax obligation. The appropriation of income from this tax is left entirely to ULSGs (previously, 80% was directed to ULSGs and 20% to the State) with the aim of strengthening the financial autonomy of ULSGs.

#### **Changes to Local Taxes**

The collection of local taxes has, in accordance with the objectives that are to be achieved by tax reform, also been simplified. The tax on inheritances and gifts has been fully aligned with changes in real estate transfer tax (ex officio turnover and reduced tax rates). Taxes on motorised road vehicles now refer to the moment of vehicle registration and validation of registration certificate extension, and are paid in roadworthiness centres for technical inspection of vehicles. Trading name tax was abolished to provide a further relief to entrepreneurs. Through the tax reform, a regulation introducing real estate tax into the Croatian tax system from 1 January 2018 was adopted. The real estate tax represents a substitute for municipal fees. We have abolished both holiday home tax and monument annuities. By transforming these fees into "tax" we have freed the use of revenue. The subject of taxation (built real estate and building land) and the taxpayer (landlord) remain almost the same as for municipal fees. Allowances for municipal fees were independently determined by units, while the exemption from real estate taxation refers only to ULSGs and parts of sacral buildings where religious ceremonies are performed. Furthermore, ULSGs now have the option to pay the tax for socially sensitive groups of citizens. The State is also considered a taxpayer regarding its real estate (since the taxpayer is the possessor, for all leased properties tax is paid by the lessee). The tax is determined according to the same principle as the municipal fee, in addition to two new coefficients: the state and age, which will bring the tax rate closer to the value of the real estate itself.

#### **Other Changes**

For the purpose of further strengthening of the fiscal system, as a measure that monitors the flow of cash, we have introduced a fiscal obligation for taxpayers who carry out the activity of selling tickets or vouchers in passenger traffic, except the sale of tickets or vouchers in local scheduled transportation services and the sale of tickets or vouchers in air, rail and scheduled maritime transport. In accordance with changes to the lump sum taxation system, we have abolished the option to issue invoices from certified accounting ledger books for persons participating in the lump sum taxation and introduced the fiscal obligation of payment through electronic billing (that pertains to all other taxpayers). For the purpose of adjusting the fiscal obligation, the issuance of invoices



through electronic payment systems for all taxpayers will begin on 1 July 2017.

By following good European practice and creating greater legal certainty for taxpayers, we have prescribed a statutory six-year term instead of relative and absolute statutory limitations. Due bodies are obligated to monitor statutory limitations ex officio, while TA performs the annual systematic write-off of debt for which the statutory limitation occurred on 1 January of the current year. Supervision procedures will be conducted within a period of three years. With the application of the opportunity principle, minor offenses will not be punished, but offenders will be issued a warning.

For the purposes of administrative cooperation with other Member States which obliges the Republic of Croatia to adapt its legislation to data exchange requirements, such data exchange is regulated by special regulations.

The law is, regarding the payment of administrative fees, aligned with the EU Directive on Services in the Internal Market in the part referring to the option of conducting all procedures related to payments, including the payment of administrative fees of all amounts, both electronically and remotely. Moreover, the amounts of all administrative fees to be paid to SABs have been reduced by 30%, in accordance with due reduction or abolishment of non-tax fees.

Tax advisory services were also aligned with the EU Directive on Services in the Internal Market, thereby abolishing restrictions imposed on all legal forms of provision of such services. We have abolished the limitation according to which EU nationals may establish only a subsidiary providing tax advisory services and no other form of office (providing the freedom of cross-border provision of services) and introduced electronic procedures for filing out applications and issuing approvals/decisions for the provision of tax advisory services in the Republic of Croatia.

Certain changes have also been made in the field of taxation of excises and special taxes, primarily related to the modernisation and simplification of the taxation system, and the reduction of administrative burdens of citizens and taxpayers. Administrative simplifications related to taxation of excise duties refer to: abolition of obligation to submit an annual excise tax calculation form for small producers of alcoholic beverages (41,000 producers); significant facilitation of wine distribution to other EU Member States; stipulating explicit provisions by which the excise taxpayer does not submit a monthly report for the month in which there was no change to his stock status, as well as received, entered, produced, dispatched and imported excise products and excise tax data. Furthermore, in accordance with good practice in the EU, we have introduced the excise tax for new tobacco products (heated tobacco products, e-liquids and new tobacco products). The aim of the special tax on motor vehicles within the taxation system was to create a more efficient, predictable and simpler system. We have therefore implemented an institute of registered used motor vehicle traders to equalise the position of traders in used and new motor vehicles. Traders in used vehicles will therefore also have the option to enter the system of deferred payment of special tax which currently applies to traders in new motor vehicles. In addition, we have introduced a system of taxation based on CO<sub>2</sub> emissions, as an independent and objective component that does not depend on the value component, and thereby established the ecological taxation criterion as a stand-alone and foreseeable element of taxation, and implemented the taxation system based on the CO<sub>2</sub> emission criterion in line with the development of technology.

Numerous changes brought about by the tax reform require both the functional and organisational adjustment of the TA. Based on the new Act on TA<sup>11</sup>, which was introduced as part of the tax reform, during 2017 we will reorganise the organisational structure of TA with the aim to ensure an economical and efficient way of doing business from one's own scope of activity.

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<sup>11</sup> OG, No. 115/16



- e. Reinforce the framework for public debt management. Adopt and start implementing a debt management strategy for 2016-2018.

In January 2017, the Public Debt Management Strategy for the period 2017-2019 was adopted. In order to strengthen the institutional capacities of the organisational unit for the management of public debt, one person was employed. Furthermore, we have published job vacancy advertisements to employ an additional 8 persons. Given that institutional and administrative capacity adequately monitors the established public debt management objectives, the Strategy envisages the organisation of public debt management at the level of management rather than at the level of sector, as it has been so far.

#### **Recommendation 2:**

- a. By the end of 2016, take measures to discourage early retirement, accelerate the transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme.

We are carrying out financial analyses of forthcoming proposals for amendments to the Pension Insurance Act<sup>12</sup> with regard to the reduction of potential number of future beneficiaries of early old-age pensions that also examine a reform measure of improving the system of pensionable service with extended duration. The preparation of the aforementioned Act has not yet been initiated, as it refers to extensive changes related to intervention in other regulations. In addition, social partners and the National Council for Pensioners and the Elderly should be included in the process of preparing the draft Proposal of the Pension Insurance Act. Implementation of Amendments to the Pension Insurance Act is planned with a parallel amendment of regulations relating to long-term expertise and pensionable service with extended duration, which will ultimately impact the Pension Insurance Act itself. Such parallel amendments will be made to the Mandatory Pension Funds Act in order to ensure the sustainability and adequacy of mandatory pension pillars I and II.

The revision of the list of professions and job positions to which pensionable service with extended duration is applied has been completed and will represent the basis for the draft Proposal of the Act on the Amendments to the Act on Extended Duration of Pensionable Service. We have formed a working group and opened dialogue with social partners to whom we have presented the results of the analysis of jobs and professions to which pensionable service with extended duration is applied. At the moment we are in the process of consultations with individual stakeholders in terms of addressing highly specific jobs and occupations to which pensionable service with extended duration is applied.

- b. Provide appropriate up- and re-skilling measures to enhance the employability of the working-age population, with a focus on the low-skilled and the long-term unemployed.

In February 2016, the Plan for the Education of Unemployed Persons was adopted, defining the implementation of education programmes for 5,989 unemployed persons, a four-time increase compared to 2015 when 1,552 unemployed persons were included in education. The Plan implies the education of unemployed persons for skill shortage occupations and occupations for which employers sought due import of labour, namely the following fields: tourism and catering (1,599); construction (1,471); metal industry (1,123); traffic (922); textile and leather goods (185); personal services (security guards - 457, carers, teaching assistants - 65); information technology (60); other occupations (107). Over the past period 3,817 unemployed persons have been included in education

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<sup>12</sup> OG, No. 157/13, 151/14, 33/15, 93/15 and 120/16



programmes, thus marking the completion of the education of unemployed persons according to the Plan for the Education of Unemployed Persons for 2016.

In order to equalise the criteria in public procurement procedures and standardise the implementation of individual educational programmes in all regional offices of the Croatian Employment Service (CES), in 2016 we defined unique technical specifications for 58 educational programmes (within 26 shortage occupations) according to which we plan to refer unemployed persons in 2017.

Work-based learning in vocational education is currently being implemented in several different forms, as shown below.

### Vocational Education and Training Development Programme and Links to the Dual Education System

Table 2: Types of vocational education in the Republic of Croatia

Types of vocational education in the Republic of Croatia	Combined programmes and apprenticeship	Work-based learning period	Implementation in schools
<b>Three-year education programmes for crafts</b> (WBL <sup>13</sup> is implemented through practical lessons and exercises with licensed craftsmen and/or legal entities, and in school workshops)	X		X
<b>Three-year education programmes for industrial and related occupations</b> (WBL is implemented through practical lessons and exercises in school workshops, in companies and school labs, and through professional practice conducted with an employer (included in most programmes))		X	X
<b>Four-year vocational education programmes</b> (WBL is implemented through practical lessons and exercises in school workshops and labs, and through professional practice conducted with an employer (included in most programmes))		X	X
<b>Five-year vocational education programme</b> – general nurse/general nursing technician (WBL is conducted through exercises within school practice, in labs and clinics).		X	X

Source: MSE

The Strategy for Education, Science and Technology<sup>14</sup> lists flexibility of vocational education through choice and modularity, providing general education and key competencies as the basis for further education and lifelong learning as priorities of vocational education reform. The Strategy also emphasises the gradual introduction of a model of work-based learning in all forms and types of vocational education, in varying degrees, depending on vocational qualification. This would increase the relevance of vocational education and facilitate the transition from education to the labour market.

Based on the Strategy for Education, Science and Technology (Objective 2 - Implementation of Comprehensive Curricular Reform provided in Chapter Early and Preschool, Primary and Secondary

<sup>13</sup> Three learning models based on work-based learning (WBL): combined programmes or apprenticeship; in school, with training in companies; and integrated in vocational education and training programme.

<sup>14</sup> OG, No. 124/14





Education), we have prepared the draft Proposal of the National Curriculum for Vocational Education (NCVO) which recognises all three WBL models and states that learning and teaching in vocational education should be conducted within the school environment and the workplace by applying various models of work-based learning. Furthermore, it is stated that work-based learning can be carried out: outside of school, in the workplace (economic subjects) where pedagogic and security conditions are met with appropriate and motivated staff - mentors at the company of the employer, in competence centres, or at school which complies with the prescribed material conditions and offers vocational education.

Vocational Education and Training Development Programme 2016-2020 was adopted in September 2016, while the Action Plan for the Implementation of the Programme was adopted at the end of 2016. The Programme recognises the importance of WBL and, therefore, defines four priorities:

- Improving the relevance of vocational education and training in relation to the labour market
- Improving the quality of vocational education and training
- Strengthening the excellence and attractiveness of vocational education and training
- Internationalisation of vocational education and training.

Within the aforementioned priorities, we have planned, inter alia, to strengthen the WBL in a way that will be clearly emphasised and promoted within the NCVE, and elaborated in detail for each sector within the sectoral curriculum, for qualifications in particular (levels 3, 4.1 and 4.2)<sup>15</sup>. Work-based learning will be permanently promoted by employers with a view of their greater and longer involvement in the educational process, as well as the provision of a sufficient number of positions for students in economic entities and institutions. A key element for successful improvement of the implementation of this model is the continuous education and training of mentors at the company of the employer who are in charge of students during their stay in economic entities and institutions.

Amendments to the Vocational Education Act<sup>16</sup> will provide: development and design of new vocational curricula for acquiring vocational qualifications required by the labour market; preparation of a simpler model of pedagogical education for mentors at companies of employers; establishment of a better quality assurance system and design of a system that will enable lifelong learning and mobility.

We are currently communicating with chambers and establishing the Working Group for the Coordination and Development of the Model for the Integration of Croatian Dual System into the Education System in cooperation with the Croatian Chamber of Trades and Crafts (CCTC) and the Croatian Chamber of Economy (CCE), relevant ministries and other system stakeholders, all with the aim of improving vocational education in the Republic of Croatia. In addition, we have held meetings with the German-Croatian Chamber of Economy. Coordination meetings with the Ministry of Entrepreneurship and Crafts (MEC) and other above mentioned stakeholders are held in order to promote and facilitate entry into professional occupations.

- c. Consolidate social protection benefits, including special schemes, by aligning eligibility criteria and integrating their administration, and focus support on those most in need.

<sup>15</sup> Level 3 – total workload for acquiring a qualification amounts to at least 60 ECVET and/or Croatian Credit System for General Education points at the 3rd or higher level of set learning outcomes. Terms of access: prior qualifications at Level 1

– Level 4.1 – total workload for acquiring the qualification amounts to at least 180 ECVET and/or Croatian Credit System for General Education points of which at least 120 ECVET and/or Croatian Credit System for General Education points at the 4th or higher level of set learning outcomes. Terms of access: prior qualifications at Level 1

– Level 4.2 – total workload for acquiring the qualification amounts to at least 240 ECVET and/or Croatian Credit System for General Education points, from which at least 150 ECVET and/or Croatian Credit System for General Education points pertain to the 4th or higher level of set learning outcomes. Terms of access: prior qualifications at Level 1

<sup>16</sup> OG, No. 30/09



We have prepared a list of benefits of social significance for the property census and the Draft Action Plan for Consolidation of Social Benefits for the period 2016-2020. Moreover, we have compiled a workflow of activities related to the draft Proposal of the Act on the Amendments to the Act on Child Allowance and initiated a discussion on the direction of changes to child allowance. Pursuant to the commitment and Programme of the Croatian Government that consider family as a prerequisite for demographic development and state that family should be empowered through family policies, we have decided to exempt social benefits for families and children from further consideration of the introduction of property census. We have, therefore, in March 2017, started the revision of the Draft Action Plan for Consolidation of Social Benefits for the period 2016-2020.

The analysis of state administration offices of due counties, that should have acted as sites for the establishment of a single point for all related to social benefits, carried out during 2016, identified the problem of inadequate spatial conditions and the lack of human capacities. We have therefore agreed upon the new concept of One Stop Shop (OSS). It was proposed that, in the first phase, the administration of benefits continues to exist in existing institutions, with the establishment of technical conditions for the information system for linking and exchanging data through a “virtual centre”. Based on the changed circumstances, preparations for the upgrading of the social welfare IT system (SocSkrb Application) and the creation of the necessary new functionalities were made. The preparation of a module for the issuance of certificates from the social welfare system is being prepared through a new e-service within the e-Citizens Service.

In February 2017, we adopted the Act on the Amendments to the Social Welfare Act<sup>17</sup>. This postponed the establishment of the OSS and the date of the transfer of jurisdiction for recognition of rights to the Guaranteed Minimum Benefit (GMB) until 1 May 2018.

In February 2017, we opened consultations on the Draft Proposal of the Impact Assessment Report for the Act on Amendments to the Act on Maternity and Parental Benefits that proposes an increase of remuneration for the use of parental leave.

### **Recommendation 3:**

- a. By the end of 2016, start reducing fragmentation and improving the functional distribution of competencies in public administration to improve efficiency and reduce territorial disparities in the delivery of public services..

In December 2016, we adopted the Action Plan for the Implementation of the Public Administration Development Strategy for the period 2017-2020, which establishes a systematic framework for the implementation of the Public Administration Development Strategy. We are preparing a draft Proposal of the State Administration Act which will allow for a reduction in the number of organisational forms at the level of central SABs (ministries, state administration organisations, central state offices and their regional units), delineate jurisdiction for performing administrative functions and tasks between SABs and state administration offices in counties, and determine criteria for the transfer of public authority.

We are currently developing a draft Proposal of the Administrative Inspection Act related to the rationalisation of regional units of central SABs which will provide for the first instance tasks of administrative inspection to be determined in the competence of the state administration offices in counties. Regarding the improvement of the organisational model of functioning of local self-government, we are in the process of collecting data on the functioning of local and regional self-government units (ULRSG).

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<sup>17</sup> OG, No. 157/13, 152/14, 99/15, 52/16 and 16/17





We have prepared a draft Proposal of the Act on Termination of the Act on the Fund for the Compensation of Expropriated Property. With termination of the Act on the Fund for the Compensation of Expropriated Property, the Fund's status will be changed and it will merge with MF in such a way that the Fund will, in the future, be managed by a separate organisational unit within the MF.

- b. In consultation with social partners, harmonise the wage-setting frameworks across the public administration and public services.

Activities to achieve this recommendation represent a part of the Action Plan for the Implementation of the Public Administration Development Strategy for the period 2017-2020. For the purpose of establishing a unified competence framework for the classification and systematisation of jobs of civil servants and state employees we have reached an agreement with Information Systems and Information Technologies Support Agency Ltd. (APIS IT) and carried out a large public procurement to link job data about civil servants and employees from the Public Sector Employee Register with the Central Payroll System (COP System). We will prepare a pilot project on a sample of five ministries which will test the overall performance management process and allow a choice of possible models, employee training and potential benefits for public administration employees and civil services.

In February 2017, we adopted the Guidelines for collective bargaining on the conclusion of collective agreements intended for civil servants and employees in public services. Their purpose is to improve the collective bargaining system for conclusion of collective agreements that legally bind the Republic of Croatia by defining guidelines for action and equalising access to bargaining committees of Croatian Government during the negotiating process, as well as to ensure the transparency and legal certainty in planning, preparation and conclusion of collective agreements. In March 2017, a new Basic Collective Agreement for Civil Servants and Employees in Public Services was concluded.

- c. Advance the divestment process of state assets and reinforce the monitoring of state-owned enterprises' performance and boards' accountability, including by advancing the listing of shares of state-owned companies.

In May 2016, the Decision on amendments to the Decision on establishing a list of companies and other legal entities of strategic and special interest to the Republic of Croatia<sup>18</sup> was adopted, which reduced their number by 8. In 2016, we realised HRK 799.11 million through the sale of companies Končar d.d., HTP Korčula d.d., Lošinjska plovidba Holding, Imperial d.d. Rab, Sunčani Hvar d.d. and other non-strategic companies.

An analysis of business and importance of strategic companies is underway. The results will be the basis for further steps regarding the revision of the list of companies and other legal entities of strategic and special interest to the Republic of Croatia and influence the adoption of the Plan for the Privatisation of Non-Strategic Companies.

A draft proposal of the Act on the Amendments to the Act on Management and Disposition of the Property Owned by the Republic of Croatia is under preparation. A Draft proposal of the decision on the sale of apartments owned by the Republic of Croatia (about 4,000 apartments) has already been drafted and is planned to be referred to further procedure.

#### **Recommendation 4:**

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<sup>18</sup> OG, No. 44/16



a. Significantly reduce parafiscal charges.

In January 2017, the Commission for the Reduction and Elimination of Non-Tax Payments was established. A comprehensive Register of Non-Tax Payments has been published. The total parafiscal burden on the economy and citizens in 2016 was HRK 9.3 billion (2.8% of GDP).

Non-tax payments include fees for professional chambers (enrolment, membership fees and professional exams), fees to public companies and administrative fees. In the narrow sense, there are 213 non-tax payments, carrying a burden of HRK 9 billion in 2016. Together with administrative fees for 334 administrative procedures, the total number of non-tax payments amounts to 547 (according to data from March 2017).

In December 2016, we adopted the new Administrative Tax Act<sup>19</sup>, which was the basis for regulating the level of administrative fees in accordance with the reduction or abolishment of non-tax payments. The level of administrative fees is stipulated by the new Regulation on administrative fee tariffs<sup>20</sup>, which entered into force on 1 February 2017, in which the amounts of all administrative fees to be paid to SABs have been reduced by 30%.

An e-mail [poslovna-klima@mingo.hr](mailto:poslovna-klima@mingo.hr) was opened so that citizens and entrepreneurs could report additional fees, as well as any form of barriers and costs of doing business.

b. Remove unjustified regulatory restrictions hampering access to and the practice of regulated professions.

Fixed tariffs and deregulated prices of architects, engineers, agents and real estate brokers have been abolished.

Licenses for providing services in construction were revoked, as well as the obligation to re-issue licenses every 5 years. The provision on the minimum number of workers carrying out construction work was abolished. Builders can decide themselves how many workers they need. The obligation to certify documents by a notary public prior to the start of energy certification of buildings has been abolished.

The liberalisation of the market for tax advisory services was carried out. We ensured free formulation of prices for tax advisory services, without the application of a fixed tariff. Legal restriction imposed on limited liability companies for the provision of tax advisory services has been abolished. The restriction under which nationals of the European Economic Area (EEA) may establish only a subsidiary providing tax advisory services and no other form of office has been abolished. Freedom of cross-border provision of tax advisory services on an occasional and temporary basis (without obligation of establishment) is permitted. The obligation that a tax advisor from the EU providing services on an occasional and temporary basis must assign an attorney to receive communication has been abolished. It is also possible for certain independent tax advisory activities to be performed by independent auditors and audit firms, as part of their activities.

Concerning accounting services, the obligation to apply a single framework plan was abolished. The obligation to certify accountants in the sense of a new regulated profession has been postponed.

The liberalisation of the market for auditing services is being prepared. The term of auditor's authorisation expiration period of 3 years has been abolished. The limitation according to which an

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<sup>19</sup> OG, No. 115/16

<sup>20</sup> OG, No. 8/17 and 37/17



authorised independent auditor can established only one audit office in which he is employed was abolished. The obligation of prior mandatory practice for auditors was reduced from 6 to 3 years. The clause under which the majority of members of auditing company management must actively use the Croatian language is abolished. The recognition of an equivalent professional accountability certificate from another EU/EEA country is permitted.

With regard to driving school services, the economic needs assessment of driving school establishment and the territorial and numerical limitation have been abolished, and the deregulation of the minimum price carried out. This will align Croatian legislation with the Services Directive and liberalise the driving school market by removing unjustified barriers to market competition.

The proposed Legal Services Reform was aimed at abolishing the minimum fixed tariff for out-of-court attorneys' legal advisory services and giving opinions. It was also agreed to abolish constraints on advertising and promotion of lawyers while maintaining the obligation to respect due professional principles of lawyers within a regulated profession, taking into account the constitutional independence of the lawyer and the specificity of the profession as well as the fact that it represents a market activity to which the provisions of the Services Directive apply.

We have simplified the provision of tourism services. The obligation to obtain consent prior to employment in providing tourist agency services is abolished.

c. Reduce the administrative burden on businesses.

The Action Plan for Administrative Relief of the Economy was adopted in January 2017. The Action Plan contains 104 measures whose implementation in 2017 will allow for administrative savings to the economy of up to HRK 1.5 billion. The average administrative burden relief in areas measured using the Standard Cost Model (SCM) methodology amounts to 30%.

The reform will stimulate business facilitation and liberalise the market of professional services. Working groups for the implementation of measures in certain areas were established in accordance with quarterly deadlines.

In 2016, more than 30 measures were implemented during the preparation of the Action Plan for Administrative Relief of the Economy. They refer to areas of public procurement, occupational safety, crafts, trade, real estate brokerage, tax advisory and accounting, and provide administrative savings of over HRK 116 million.

An overview of activities carried out with regard to the progress made in the implementation of Recommendation 4 is provided below.

#### **Business Environment and Services Market Reform**

By the beginning of 2017, about 200 measures to improve the business environment were implemented:

- liberalisation of the market of services has been carried out in most sectors that are in the domain of the application of the EU Services Directive (tax advisory, auditing, accounting, driving schools, architects, engineers, construction, funeral services, real estate transactions, trade, museums, etc.) by promoting competition on the internal EU market through over 50 measures and regulatory adjustments to EU rules on free market services
- over 20 measures of administrative relief of the economy were implemented following the implementation of the SCM methodology in the field of public procurement reform and the



real estate trading and brokerage sector

- over 60 measures of reduction and abolition of non-tax payments have been implemented, resulting in para-fiscal relief of over HRK 700 million
- tax reform aimed at a certain level of administrative relief of entrepreneurs has been implemented
- labour market reform has enabled partial market flexibility
- insolvency proceedings have been simplified.

In January 2017, a package of reform acts was initiated and thus began a systematic improvement of the business environment:

1. Action Plan for Administrative Relief of the Economy
2. Conclusion on the Introduction of Electronic Procedures for Registration of Business Establishment and Obtaining Approval for Performing Service Activities
3. Decision on the establishment of the Commission for reduction and elimination of non-tax payments.

### 1. Action Plan for Administrative Relief of the Economy

The table below gives an overview of SCM measurements and relief regarding the Action Plan for Administrative Relief of the Economy in 8 measured areas in which HRK 5 billion of administrative costs were measured. The Action Plan also established measures to liberalise the services market.

Table 3: Results of SCM measurements and targeted reduction of burden per area

	Results of SCM measurements and targeted reduction of burden per area	Current administrative cost of area (HRK)	Amount of administrative relief in 2017 (savings in HRK)	Administrative relief
	Total burden and relief	5,061,290,184	1,492,504,435	30%
	Share in GDP value	1.5%	0.4%	
	1. Establishment of d.o.o./j.d.o.o. <sup>21</sup> (simultaneously):	60,267,708	45,639,540	76%
	1.a. Establishment of d.o.o. <sup>22</sup>	38,996,556	27,643,677	71%
	1.b. Establishment of j.d.o.o. <sup>23</sup>	21,271,152	17,995,863	85%
	2. Establishment of a craft	7,143,820	2,916,542	41%
	3. Sanitary and health requirements	219,481,474	97,463,134	44%
	4. Energy efficiency in construction	47,618,755	9,287,542	20%
	5. Trade	73,968,980	24,287,098	33%
	6. Real estate agents	11,215,864	2,368,411	21%
	7. Work safety	4,378,916,371	1,268,969,047	29%
	8. Public procurement	262,677,212	41,573,121	16%

<sup>21</sup> Limited Liability Company/Simple Limited Liability Company

<sup>22</sup> Limited Liability Company

<sup>23</sup> Simple Limited Liability Company



The inter-agency implementation of Action Plan measures due by 2017 has started and the first measures include:

- simplification of working hours records
- release of members of the management and executive directors of the company from the obligation to lock their own account with the Financial Agency (FINA) when they do not pay out their own salary on time
- termination of seal obligations at the set up of a business
- relaxation of sanitary and health requirements
- simplification of submission and delivery of documentation on professional illness of worker
- option to settle administrative fees electronically, without the obligation to purchase state revenue stamps
- option to comply with administrative procedures for access to a range of service activities by e-mail, without paperwork
- series of exemptions from the obligation to obtain an extract from court or trade register, provision of copies of documents, etc.
- reduction of price of brokerage exam for real estate agents of 25%
- abolition of limitation of the number of newly established driving schools per county based on state assessment, i.e. free establishment of a driving school according to market conditions
- abolition of the fixed regulation of the minimum price of a driving school lesson
- abolition of the limitation according to which an authorised independent auditor can establish only one audit office in which he is employed
- abolition of the term of auditor's authorisation expiration period
- abolition of the obligation that most members of an audit firm must actively use the Croatian language.

## **2. Conclusion on the Introduction of Electronic Procedures for Registration of Business Establishment and Obtaining Approval for Performing Service Activities**

We have commenced the process of developing a complete and simple solution for the fast and electronic registration of a business establishment. Registration of crafts is already available electronically. The realisation of the right of business establishment will be administratively simpler and electronically accessible, without paper, stamps or notarial verifications. We have commenced the process of developing a simple solution for obtaining approval for performing services. Service providers can submit forms and documents to competent bodies via electronic mail, without paperwork by accessing the Point of Single Contact at [www.psc.hr](http://www.psc.hr). By the end of 2017, fast e-services will also be integrated into a state-of-the-art information infrastructure system that will save at least 70% of administrative costs related to access to the market. This represents an administrative simplification within the liberalisation of the market of services.

## **3. Decision on the Establishment of the Commission for Reduction and Elimination of Non-Tax Payments**

We have proposed the first initial set of measures for further reduction and elimination of non-tax payments, which include, but are not limited to:

- reduction of crafts contribution (given the increase in personal deduction)
- reduction of fee for general useful functions related to forests
- release of the information technology (IT) sector and part of other activities from the payment of tourist membership fee
- reduction of occupational safety fees
- reduction of exam and membership fees for auditors and tax advisors.

## **Public Administration Reform**

We have implemented the Public Administration Reform. The new legal solution has saved the



economy HRK 42 million. Such relief measures include:

- reduction of administrative costs made possible by the introduction of electronic procedures in public procurement
- reduction of tender bid guarantees from 5 to 3%
- guarantee for the orderly performance of contractual activities may not exceed 10% of the value of the concluded agreement
- introduction of the economically most advantageous offer as the only tender selection criterion, whereas received value for money can be estimated as a balance of price and quality that brings long-term savings to customers
- introduction of innovation partnership that acts as a new type of public procurement procedure for the development and procurement of innovative goods, works or services
- introduction of dynamic purchasing system and e-catalogue
- reduction of the amount of fee for initiation of appeal procedure for purchases of estimated value up to HRK 750,000
- abolition of administrative fee for appeal of HRK 70
- introduction of fixed fee for appeal on the tender documentation in the amount of HRK 5,000, i.e. it is no longer possible to pay more for such fee
- introduction of obligation to consult economic entities on documentation regarding public works, services and goods of great value
- introduction of single appeal period of 10 days for all public procurement procedures, thus speeding up the procedure.

We have established the Independent Business Climate Improvement Service within MEC that acts as a central place for encouraging simplification and cost-cutting of business requirements, as well as implementation of comprehensive regulatory reform.

#### **Recommendation 5:**

- a. Take measures to improve the quality and efficiency of the judicial system in commercial and administrative courts.

The World Bank has prepared an analysis of the situation in Croatian judiciary based on data from the e-File system and put forward initial recommendations to address the identified shortcomings. It has been suggested that high burdens and backlogs can be solved through reform measures that will speed up the resolution of small value disputes and the usage of alternative case resolution, while the related burden can be reduced by changing regulations dealing with procedural and administrative matters.

In order to exchange experiences and good practices with other EU Member States in the rationalisation of the network of judicial bodies and analyse the implemented rationalisation, a two-day workshop entitled “Analysing the Rationalisation of the Judicial System Network” was held under the Structural Reform Support Programme (SRSP). Presented experience of other EU Member States will contribute to comprehensive and effective analysis of the current state of affairs, and planning of further rationalisation of judicial bodies network, primarily in the upcoming merger of municipal and misdemeanour courts.

We conducted a public consultation regarding the draft Proposal of the Act on Amendments to the Courts Act. Its adoption by the Croatian Government is planned for the second quarter of 2017. The adoption of the Final Draft of the Act on the Amendments to the Execution Act is expected in April 2017.



We have set up a Working Group for the drafting of a rationalisation proposal for the network of misdemeanour courts. The working group has already started to undertake its activities. The Working Group for the preparation of the State Judiciary Council Act is currently drawing up a draft Proposal of the State Judiciary Council Act so as to release it into the public consultation procedure. Amendments to the Court Rules of Procedure<sup>24</sup> from March 2017 prescribe provisions enabling the application of e-File System in the Criminal Department of the Supreme Court of the Republic of Croatia as of April 2017. In addition, we have fulfilled normative prerequisites for the development of service for the issuance of documents regarding pending criminal proceedings and certificates from criminal and misdemeanour records via the e-Citizens system. Amendments to the Regulation on usage of the e-File system<sup>25</sup> have eliminated the observed shortcomings in the practical implementation of the system and provide for provisions related to the work of the Criminal Department of the Supreme Court of the Republic of Croatia within the e-File System.

A draft framework of General Criteria for Judges was prepared. We have adopted a Decision regarding the reduction of length of court proceedings, number of unresolved cases and inflow of new cases to encourage the out-of-court settlement of civil and commercial disputes in which one party is the Republic of Croatia, i.e. a legal entity whose sole founder or member, i.e. a shareholder in the predominant part is the Republic of Croatia<sup>26</sup>.

The e-File System was introduced at the High Commercial Court of the Republic of Croatia, enabling electronic court operations and electronic communications with lower courts (except delivery of case files). It is also possible to randomly assign a case to a workflow that allows an objective and even distribution of subject matter to the judges. Regarding the introduction of the e-File System to the Supreme Court of the Republic of Croatia, implemented adjustments of the e-File System for Criminal Department of the Supreme Court of the Republic of Croatia are in the testing phase. The release is planned for production in April 2017. In order to further improve the e-File System and the publication of court practice, the System was in early October 2016 merged with the SupraNova system (system for publication of court practice). By integrating the two systems it is now possible to submit the content of court decisions directly from one system to another and optimise the engagement of officers required to publish decisions on the SupraNova Intranet.

Within the IPA 2012 Pre-Accession Programme, a contract for the procurement of equipment for the e-File System upgrade worth EUR 2.95 million has been signed. This will contribute to increasing the capacity of courts to use court case management systems. The Misdemeanour Court Joint Case Management System (JCMS) has in July 2015 been introduced to all misdemeanour courts and to the High Misdemeanour Court since April 2016.

- b. Facilitate the resolution of non-performing loans, in particular by improving the tax treatment of the resolution of non-performing loans.

In December 2016, we adopted the Act on the Amendments to the Corporate Income Tax Act<sup>27</sup> which provides for a one-off measure in the form of an exceptional provision related to tax treatment of other claims, which will encourage credit institutions to write off debts for already established NPLs. In view of the observed need to accelerate the process of deleveraging and reducing the share of NPLs, the Act provides for a provision to be applied only in 2017, and according to which the write off of partially recoverable and fully non-recoverable placements, determined in accordance with the Decision on the classification of placements and off-balance sheet liabilities of

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<sup>24</sup> OG, No. 29/17

<sup>25</sup> OG, No. 29/17

<sup>26</sup> OG, No. 62/16

<sup>27</sup> OG, No. 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16 and 115/16





credit institutions<sup>28</sup> of the Croatian National Bank (CNB) as of 31 December 2015, from unrelated legal and natural persons, without the initiation of judicial or enforcement proceedings or other proceedings prescribed by the law, will represent a tax deductible expense. Therefore, only during 2017, the credit institution, in accordance with Article 14 of the Act on the Amendments to the Corporate Income Tax Act, as a final tax deductible expense, without initiating the collection of claims with the due care of a prudent business person (enforceable and court proceedings) will be able to determine the write-off of credit placement for principal and interest under the following conditions:

- credit placements are classified according to the Decision on the classification of placements and off-balance sheet liabilities of credit institutions into partially recoverable and completely fully unrecoverable placements (group B and C) until 31 December 2015
- for a value that was reduced by 31 December 2015 (expense, provisions)
- write-off is under the Civil Obligations Act considered final
- write-off was made for an unrelated person.

The TA will receive the data on cancellations made under the provision in question when filing a corporate tax form for 2017 in 2018, since the obligation to submit such records is mandatory.

In March 2017, we adopted an amendment to the above mentioned Decision on the classification of placements and off-balance sheet liabilities of credit institutions regarding the restructuring of placements which will allow for more relaxed conditions for the return of fully recoverable placements and changes related to records of partially recoverable and fully non-recoverable placements, thus reducing the level of indebtedness within the system.

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<sup>28</sup> OG, No. 1/09, 2/10, 89/13 and 28/17



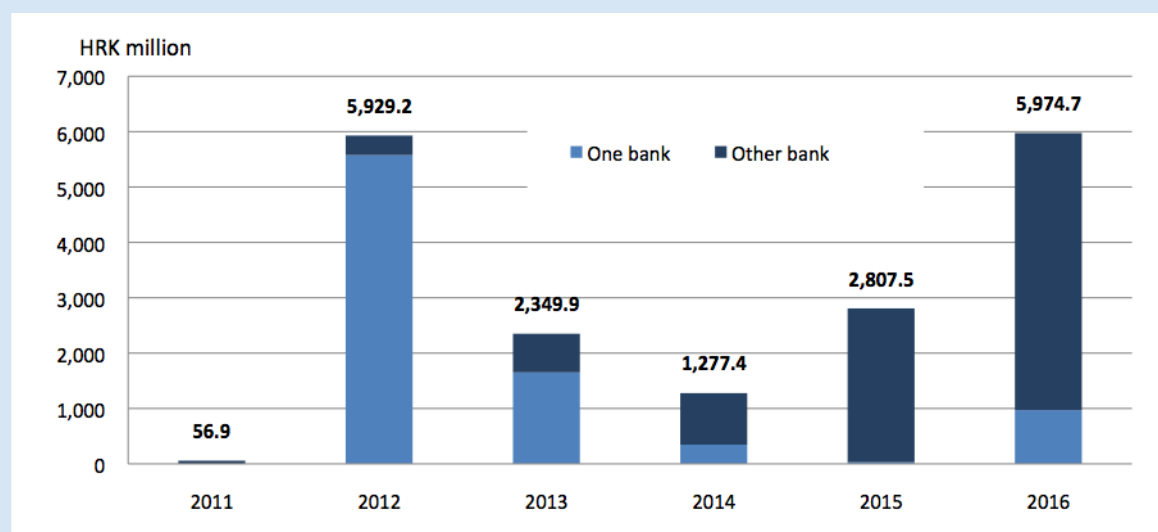


### Bank Loan Quality

For the second consecutive year, the share of loans pertaining to risk groups B and C decreased from 16.65% at the end of 2015 to 13.80% at the end of 2016. This was the result of improvements in the business environment, mirrored in the better collection of receivables and improvement of client creditworthiness, as well as the growth of resolution of non-performing loans, especially through the sale of receivables. A strong incentive for sales was given by progressive CNB rules on allocating additional value adjustments. In the household sector, the effect of improving loan quality was also influenced by the conversion of CHF loans to EUR, as well as by changes to rules on credit risk assessment in one bank<sup>29</sup>.

The aging of the portfolio, strengthened by the above mentioned regulatory rules on the gradual increase in value adjustments for long-term unrealised placements, has led to a noticeable increase in loan coverage of group B and C achieved by value adjustments – from 56.86% at the end of 2015 to 63.59% at the end of 2016. This is a continuation of the long-term trend, which has contributed to the increase of attractiveness of these loans on the secondary market. Compared to 2015, the sale of receivables has intensified considerably, and in 2016 HRK 6 billion of claims in risk groups B and C were sold (along with the corresponding HRK 1.5 billion in off-balance sheet receivables). Receivables from non-financial corporations were sold the most – they accounted for almost three quarters of total sales. Most receivables have been purchased by specialist debt collection companies or companies specially established for the purpose of collecting and managing receivables.

Figure 1: Claims sold



Source: CNB

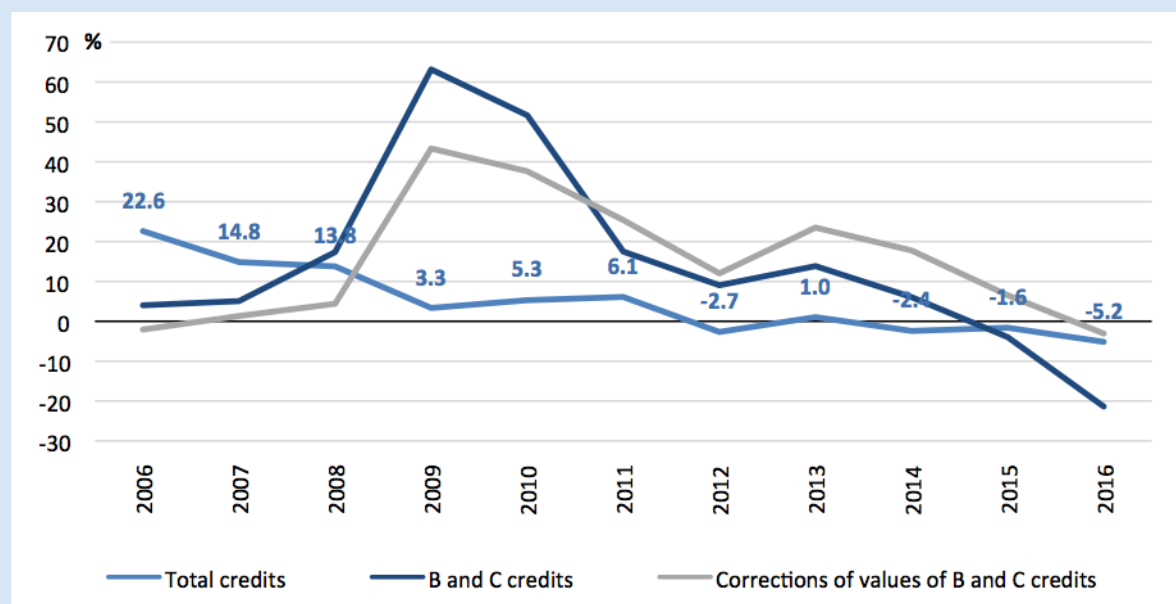
Note: An overview of gross book value of sold balance sheet receivables of risk groups B and C. Data does not include sales between banks.

During 2016 most CHF loans were converted into EUR loans. Converted mortgages amounted to HRK 9.6 billion at the end of the year, or almost 20% of total mortgages. The mentioned amount includes only loans that were not subsequently refinanced, whereas unofficial empirical data suggest that the amount of refinanced loans (in the same or another bank), and HRK loans in particular, could be significant.

<sup>29</sup> The bank raised the significance threshold for determining individually significant exposures to the maximum permitted amount, so a large number of previously individually significant exposures entered the small loan portfolio. The bank applies internal recovery rules for individual significant exposures that are more stringent than prescribed rules for the small loan portfolio.<sup>29</sup>



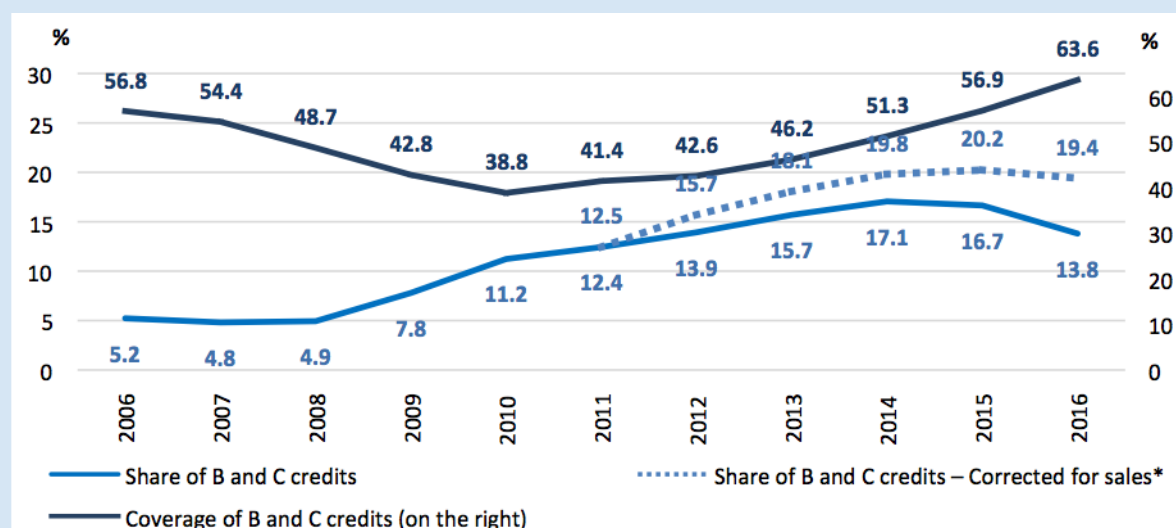
Figure 2: Loan and Value Adjustment Rates



Source: CNB

The aforementioned developments, together with early repayments in cash and reclassifications on the basis of creditworthiness enhancement (due to principal and overpayments write-offs), have contributed to improving the quality of total mortgages. The share of risk groups B and C fell from 9.77% at the end of 2015 to 8.17% of total mortgages at the end of 2016. An additional contribution to the movement of this indicator was given by the previously mentioned amended rules on credit risk assessment in one bank.

Figure 3: Loan Quality



\*Assuming that sold receivables remain on the balance sheet for 5 years during which they do not influence the balance.

Note: As of 31 March 2010, the series of loans consisted exclusively of loans distributed in the loans and receivables portfolio. As of 31 October 2013, the loan amount is reduced by the amount of unpaid remuneration (that were formerly recorded as deferred income in liabilities).

Source: CNB



## **4. Main objectives, reform areas and economic policies**

### **4.1. Strengthening economic competitiveness**

#### **4.1.1. Improving the business environment**

##### **Unification of Inspection Services**

In order to relieve economic operators of frequent, uneven and uncoordinated inspection supervisions and procedures, the unification of inspection services will be implemented. In the previous period, numerous inspections were established within ministries with a different rank of organisational units within which inspections were carried out. Therefore, over 50 inspection offices are currently organised in the Republic of Croatia for the purpose of conducting inspection work. The existing model was rated ineffective and irrational. Particularly present are the problems of oversized divisions between competent inspections, uneven organisation of inspection units within ministries, regional offices/units and sub-offices outside ministries, lack of effective coordinating mechanisms between inspections, uneven conduct of inspections in the conduct of oversight and inadequate information and legal security of economic entities.

By consolidating the inspection services, the above mentioned problems will be eliminated, and the fragmentation that is now present in competence of different economic inspections will be eliminated. Currently, more than 10 inspections can visit one trading or hospitality company. By integrating inspection services, economic entities will no longer be focused on a large number of inspection services, which will contribute to more effective and open communication, more effective elimination of possible irregularities in their business and systematic monitoring of business entities, and above all a unique approach to the work of inspectors towards economic entities.

The consolidation of inspection services will be carried out in several phases, with the first phase being the consolidation of inspection work in the economy. A working group will be set up to determine which inspection activities should be unified for a more functional and efficient performance of inspection activities. The rationalisation of the existing organisation will then be carried out and the optimal organisation of inspections will be determined, which will also contribute to the reduction of the existing number of established regional organisational units. By adopting a new regulation on inspections or other relevant regulations, a new organisation and common principles for the conduct of inspections will be regulated. Taking measures against economic entities will primarily be based on the gravity of found violations and the extent to which the public interest is affected. Therefore, for minor offenses, first only a warning with a correction period of the irregularity will be issued.

##### **Relieving the Economy from Excessive Administrative Costs and Non-Tax Payments**

The entire regulatory reform of the economy has started in order to create the legal and institutional framework for a competitive market economy and conditions for freer access to the internal EU market. Entrepreneurial initiative would thus be freed from various kinds of fees and obstacles. Within the aforementioned reform measures we will implement: administrative relief of 30% on average by the end of 2017, in areas measured by SCM methodology; expansion of SCM methodology for measurement and targeted administrative relief of at least 30% by the end of 2018, in each of the other areas affecting business and market; parafiscal relief of at least 20% in the period 2017-2019; further liberalisation of the services market; estimates of economic effects using the Small and Medium Enterprise Test (SME Test).



During 2017, the inter-agency application of SCM methodology will be widened through a systematic review of cost and quality of regulations in all regulatory areas affecting business and access to the services market. Competent authorities will establish legal and subordinate regulations that create administrative costs for entrepreneurship and barriers to free market competition in certain legislative areas. In addition to the SCM analysis results, in the measured areas administrative relief will amount to at least 30% by the end of 2018. We will audit penalties for entrepreneurs, as well as conduct a detailed analysis of obstacles to free market competition, with the purpose of deregulation of access to certain services market sectors.

We will implement estimates of economic impacts of regulations on SMEs through application of SME tests. This will prevent the introduction of new administrative costs (measured by SCM methodology), fees and barriers to market competition. Consultations and advisory services for the business community and other stakeholders on regulations affecting small business will strengthen. An integral part of the SME test is the cost and benefit analysis of particular policy options. The SME test will therefore be an important segment in building an efficient public policy system for the economy and the quality of public management. Proposals of regulations will require the prior consent and binding opinion of MEC. This will imply the introduction of quality control for legislation. The application of the SME test will be governed by the Regulation on the implementation of the procedure for regulatory impact assessment on small business enterprises (SME test), which was submitted for the approval process by the Croatian Government in April 2017.

A strategic and legislative framework for strengthening the implementation of the regulatory impact assessment for the period 2017-2022 will be established. The ultimate goal is to improve the system of assessment of effects of regulations through the active role of all bodies responsible for the system of assessing such effects of regulations, as well as the participation of all stakeholders. The implementation of these measures will result in the reduction of unplanned legislative activities and the simplification and shorter duration of the process of assessing the effects of regulations. The capacity of civil servants will be strengthened in the area of implementation of the methodology of regulatory impact assessment, implementation of SME test and SCM methodology.

In addition to administrative relief, we will also carry out the reduction of burden regarding parafiscal charges. The parafiscal burden will be reduced by at least 20% in the period 2017-2019. We plan to abolish all administrative fees that make up the direct revenue of the central government budget.

In partnership with the business sector, MEC will in 2017 develop an interactive web portal through which entrepreneurs and citizens report administrative costs, barriers and fees.

Within the framework of the initiated public procurement reform, the business sector will be administratively relieved by the development of e-procurement. By applying the most economically advantageous tender criteria, a more balanced price and quality ratio will be achieved. The plan is to simplify and speed up data verification during the implementation of public procurement procedures by linking key public registers (business registers, TA, criminal records, etc.) with the Electronic Public Procurement Classifieds Portal (EOJN Portal) operated by the company Narodne novine d.d. (OG). In addition, we plan to upgrade the Croatian EOJN system, as well as develop additional modules required for the integration of the European Single Procurement Document (ESPD) and necessary data from public registers into the Croatian EOJN interface.

### **Services Market Liberalisation and Development of Point of Single Contact**

The liberalisation of the services market is primarily carried out in accordance with the obligations of the EU Services Directive, the Internal EU Market Strategy and the European Programme for



Economic Cooperation. The process of liberalisation of the services market will be carried out through a comprehensive process of encouraging the freedom of market competition, in accordance with Article 60 of the Treaty on the Functioning of the EU. MEC will conduct a horizontal coordination of the market liberalisation process in order to encourage interdepartmental modifications and adjustments to sectoral legal and subordinate regulations for the services market. Following the already implemented measures, a range of sectors will be covered by liberalisation, including private education, temporary employment agencies, traffic, taxi, lease of vehicles with driver and pre-contracted carriage of passengers, technical inspection of vehicles, attestation, rental, leasing and rental of business premises, tourism, waste management, architects, engineers, pharmacy, psychotherapy, private protection, private health, enforcement execution and many other regulated professions. Regulatory framework analysis for the services market will be implemented through the planned extended application of SCM methodology for measuring and targeted reduction of the administrative burden for the economy by at least 30% by the end of 2018. Economic impact assessments will be conducted through the SME test in order to prevent barriers to market competition. In analysing and adoption of specific measures we will consider, among other things, the criteria of services market restrictions according to the OECD Product Market Regulation (PMR) methodology in order to stimulate greater freedom of competition.

We will continue the development of Point of Single Contact ([www.psc.hr](http://www.psc.hr)) within the framework of the EU Electronic Single Point of Contact ([www.cut.hr](http://www.cut.hr)). The Point of Single Contact will provide all administrative responses to the regulatory business conditions and access to the internal market of services in one place. An array of information on business conditions has already been published. By the end of 2017, the number of information sets on administrative burdens will increase and an e-register of regulations will be established for business start-ups and quick access to service activities, with access to the Point of Single Contact. Due to the Point of Single Contact, the administrative cost of starting a business and accessing the services market will be reduced by at least 70%.

### **Improving the Provision of Electronic Services and Access to Information for Citizens and Businesses**

Further development of the e-Citizens Platform will focus on the development of new electronic public administration services and the inclusion of as many electronic services of local and regional self-government as possible. At the same time, the e-Business Platform has been set up with the aim of bringing public administration closer to the economic sector and other legal entities.

In 2015 we implemented the e-Business pilot project involving several public e-service providers with seven experimental electronic services. Similar to the e-Citizen system, e-services will use the National Identification and Authentication System (NIAS) for authenticated user access, and each legal entity will have access to their own business user mailbox. Due to the specificity of the system, we additionally plan to implement the e-Authorisation system which will give certain roles to certain individuals in order to access certain electronic services for legal entities. Upon setting up the system we plan to include at least 10 more electronic services for legal and business entities. In addition, in order to facilitate cross-border access to public e-services, the Republic of Croatia has begun the implementation of the project "Enabling Access to Croatian Public e-Services within the e-Citizens for EU/EEA citizens platform", co-financed by EU funds of the Contribution from Connecting Europe Facility (CEF) programme. The purpose of the project is to promote the use of electronic identification infrastructure for citizens in the EU/EEA countries. The project implements technical and business-normative adjustments of e-Citizens and NIAS systems, as well as other public electronic services for citizens in accordance with the provisions of the Regulation (EU) No 910/2014 of the European Parliament and of the Council on electronic identification and trust services for electronic transactions in the internal market.



Pursuant to the Act on the Right of Access to Information<sup>30</sup> public authorities are currently publishing information/open data for reuse, however, it is still necessary to more precisely define cases of charges and permits that establish the conditions for repeated use. In cases where a body of public authority may charge the user for reuse of information, the fee for its repeated use will be determined by decree of the Government of the Republic of Croatia in accordance with objective, clear and verifiable criteria for calculating such reuse costs. The Ordinance on the types and content of permits that stipulate conditions of reuse will also be adopted. The draft Ordinance on the types and content of permits that stipulate conditions of reuse has been submitted to the public consultation procedure. According to the EC estimates for 2016, the reuse of open data will generate 1,000 direct jobs in the period up to 2020 and public sector will by 2020 be able to save EUR 5 million, while the size of the direct market, i.e. the impact on GDP, amounts to EUR 186 million.

### **Electronic Business Start-up**

We plan to implement an adjustment of the framework in order to enable the establishment of a business electronically. Pursuant to the Services Act<sup>31</sup> and the EU Services Directive, the procedure for exercising the right of establishment must be electronically enabled for citizens of the Republic of Croatia and the EU, and accessible via the Point of Single Contact.

The current regulatory analysis of existing data systems and registry processes will provide a good basis for development of a modern central business registry. This will create a one-stop-shop system for fast start-ups and a number of other e-services, linked to the state information infrastructure. We plan to enable business start-up within 3 days through a smaller number of steps and at a minimal cost of establishment, which will contribute to improving the position of the Republic of Croatia on the Doing Business scale.

### **Improving the Cadastre and Land Registry System**

The improvement of the cadastre and land registry system will be achieved by the revision of legislation, further digitisation of cadastral and land registry data and reorganisation of work activities with special emphasis on the functional integration of existing registers and institutions. The measure will be implemented in several phases, with the first step being the adoption of the Plan for the Implementation of Functional Integration. In order to establish a legal framework for the implementation of a functional integration of cadastre and land registry departments, the Act on State Survey and Real Estate Cadastre<sup>32</sup>, the Act on Land Registry<sup>33</sup> and other legal regulations will be revised from the adoption of the Functional Integration Plan until December 2017. The functional integration of cadastre and land registry departments in a new institution in particular will contribute to a significant reduction in the number of procedures, the reduction of double implementations arising from the currently applicable regulations, and the transfer of certain authority to non-institutional persons in cadastral and land registry procedures. The new institution will be established by December 2018, and the physical integration of cadastre and land registry departments will take place by December 2020. Our aim is to boost the effectiveness of the new institution focused on users by implementing faster and simpler procedures and using quality and digitised information on real estate.

In addition, a detailed plan will be issued for cadastral surveys and the establishment and renewal of land registries with the aim of ensuring the efficiency of land registry and land registry records. With

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<sup>30</sup> OG, No. 25/13, 85/15

<sup>31</sup> OG, No. 80/11

<sup>32</sup> OG, No. 16/07, 152/08, 124/10, 56/13, 121/16 and 9/17

<sup>33</sup> OG, No. 91/96, 68/98, 137/99, 114/01, 100/04, 107/07, 152/08, 126/10 and 60/13





the adoption of the Detailed Plan we plan to create the assumptions for updating land registry data of 98 cadastral municipalities whose survey was completed, case procedures updated and relevant procedures implemented. Amendments to the provisions of the Land Registry Act regarding the procedures for establishing, updating and supplementing the land registers, thereby simplifying the mentioned procedures, will enable the reconciliation of land registry and cadastral data in a faster and simpler way.

In order to achieve effective coordination, planning, and management, the Programme of cadastral surveys and establishment and renewal of land registries will be developed, taking into careful consideration that approximately 71% of the total area of the Republic of Croatia is in public ownership. Procedures will be simplified, the authority of officials increased, work activities will be reorganised, mobile teams formed, and funding made available in order to establish additional teams since the lack of capacity and the inability of procuring additional funding for existing officials is one of the fundamental reasons for system slowness.

By applying previously developed methodologies and applications for transforming land registry and cadastre data into the Land Database (LDB), completely harmonised data will be automatically digitally transferred to the LDB without any additional activities. Partially harmonised data will be harmonised and transferred to the LDB by implementing a simple modifications procedure with the involvement of outside persons, while the unharmonised data will be subjected to regular harmonisation procedures. Furthermore, geodetic documents that have been implemented in the cadastre but not delivered to the land registry departments will be given legal power, and by doing so a large number of real estate properties will be updated with no new expenses and in a short period of time.

We will establish a Physical Planning Information System (ISPU), which consists of a geoportal and multiple modules that represent standalone IT solutions designed to manage procedures, data and documents under the jurisdiction of MCPP. Spatial plans and other information relevant for spatial planning will be made available to the public, potential investors and authorised users of the public administration bodies in a single place. This will enable quick access to information on possible use of space, while procedures for issuing documents in the field of spatial planning, construction and real estate valuation will be rationalised and harmonised.

By the beginning of 2017 the following ISPU modules were established: eCatalogue, ePlans, ISPU Locator, ePermit and eProperty. In the forthcoming period efforts will be made to improve and expand the existing modules and set up new modules such as: Spatial Planning Registry, Brownfield Area Register, eInspection and eArchives module for permits. In addition to IT support we will establish a system of mass assessment of real estate value that represents a novelty for the legal system of the Republic of Croatia. The implementation of the measure will have a positive impact on improving the investment climate and enable better management of spatial resources.

#### **4.1.2. Improving the disposition and management of state assets**

##### **More Responsible Management and More Successful Monitoring of Business Operations of Companies**

Based on the Strategy for Management and Disposition of Property Owned by the Republic of Croatia for the period 2013 to 2017<sup>34</sup>, and in order to better manage and more successfully operate companies, we will define a methodology for determining and monitoring the medium-term objectives of companies in the state portfolio and conduct a pilot project for the preparation of mid-

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<sup>34</sup> OG, No. 76/13



term plans<sup>35</sup>. This will result in more responsible management and more successful business operations of companies through introducing mid-term management and better quality control by the supervisory boards of the companies, which will be regulated by the adoption of the Decision on the introduction of mid-term planning, the Guidelines for drafting of internal documents for management salary policy and linking of salaries with results of mid-term plans of strategic companies and the Code of Corporate Governance. In addition, an ongoing analysis of the current planning system in strategic companies is under way, followed by guidance on developing methodologically standardised mid-term business plans for all strategic companies and validation thereof.

Due to the possible negative impact on the budget, it is necessary to restructure strategic companies in financial difficulties, as well as to oversee the implementation of this process and prepare methodologically standardised restructuring plans. The obligation for the restructuring plans will refer to all companies that the Croatian Government, at the suggestion of competent ministries, includes in the list of companies in difficulty. Based on the methodology for monitoring restructuring plans, periodic reports on their realisation will be collected, monitored and implemented.

### **Re-Evaluation of Strategic Assets and Reducing the State Portfolio of Companies, Apartments, Business Premises and Land**

In order to enable the effective reduction of government portfolio through the sale of shares and business shares of non-strategic companies and the consequent reduction of public debt and increase of credit rating in the forthcoming period, preconditions for further sale of the sale will be created.

By adopting the Decision of the Government of the Republic of Croatia we will determine which companies will move from the Ministry of State Property (MSP) portfolio to the Restructuring and Sale Centre (CERP) portfolio and vice versa. Furthermore, by adopting the Conclusion of the Government of the Republic of Croatia on the Adoption of the Non-Strategic Companies Privatisation Plan we will determine which companies are going to be sold. Prior to the start of the sale process and on the basis of the new Act on Management and Disposition of the Property Owned by the Republic of Croatia, a new Regulation on the sales of stocks and business shares will be passed, thus simplifying the sale process. During the process of sale, opportunities arising from the capital market will be more intensively used.

Furthermore, effective reduction of the state portfolio of ownership over apartments, business premises and land, and the activation of unused state property will be made possible. One of the examples of activating unused property is assigning functions to former army barracks through sales, leases, construction rights, etc., upon settling related property and legal documentation. For the implementation of these activities, we will introduce amendments to the legislative framework. Namely, the sale of apartments and the reduction of portfolio regarding the mentioned real estate can only be effected after the adoption of a new Decision on the sale of apartments owned by the Republic of Croatia, which would create conditions for the one-time sale of apartments and thus avoid or reduce fractionated payment. In cooperation with banks operating in the Republic of Croatia, we will identify a modality that will enable them to provide favourable interest rates to interested parties for purchase under better conditions. We are taking all the necessary actions related to the activation of unused state property in order to put such property in function based on the elaboration of the entire property and legal documentation, either by establishing the right of

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<sup>35</sup> This measure will be implemented within the framework of technical assistance provided by the EC through SRSP. The competent authority of the programme in Croatia is the European Bank for Reconstruction and Development (EBRD) Zagreb office. The total value of the project funded by the EC is EUR 273,000, of which EUR 186,000 refers to the improvement of the management of the SOEs (establishment of unified reporting and supervision), while EUR 87,000 accounts for education (three rounds of workshops).<sup>35</sup>





building, leasing, sale, etc. In the case of former military property that is not legally regulated and for the most part cannot be utilised, action is being taken to accelerate the resolution of these issues.

### **Redefining the Concept and Structure of Comprehensive State Property Records**

We will conduct a mid-term transformation of the existing State Property Register from an administrative into a management system. For the full functional establishment of the Central Register of State Property as a register that will gradually unify all forms of property owned by the Republic of Croatia, it is necessary to restructure the unique methodology for envelopment, recording and valuation of property. A methodologically structured database on the forms of property is an infrastructural prerequisite for effective management and responsible asset utilisation, which leads to growth of financial and nonfinancial management effects necessary to increase the share of revenue from state property management and utilisation in GDP in the medium term. In this respect, this measure aims to provide a comprehensive insight into the scope and structure of all emerging forms of property owned by the Republic of Croatia and its associated attributes that determine its proper management and utilisation. A comprehensive insight into the scope and structure of all emerging forms of property owned by the Republic of Croatia implies the definition of a data model based on the defined standardised methodology in accordance with international standards. The development of a methodologically standardised basis represents a starting point for quality and transparent decision-making on property management. The instrument of implementation of this measure is the project of development of a State Asset Management Information System (ISUDIO Project).

The ISUDIO Project represents a data and software upgrade of the existing system – Register of State Property. The implementation of the project will result in an insight into the redefined scope and structure of state property and the related standardised and methodologically elaborated model of up-to-date and authentic physical, legal, and economic and financial features/attributes that represent a basis for quality and transparent decision-making on the management of various forms of property. This will improve, i.e. solve the observed limitations of the existing system.

The implementation of the measure will ensure: reclassification of the forms of property in accordance with international standards and requirements of the Croatian Government; data upgrade of the existing system (records of real estate types and financial assets types – stocks, equity shares and securities); electronic connection with basic and public registers; online access to the system (electronic data entry by data providers through web application or horizontal portal) and a higher degree of credibility, validity and system control of data within the Register of State Property.

### **Strengthening the Transparency at the Level of Companies in which ULRSGs Have Ownership Interests**

We will continue to strengthen transparency at local and regional levels, after the creation of a newly-established list of companies in majority ownership of ULRSGs, as a living mechanism with the need for updating by the owners of companies. An overview of the current state of local government levels established the existence of real risks of corruption in work and asset management, or companies in majority ownership of ULRSGs. Systematisation in the field of local level property supervision is planned to generally improve the transparency and accountability in the sector of locally owned companies, or the efficiency of Units of Local and Regional Self-Government. By the adoption of Instructions for keeping and publishing lists of companies in majority ownership of ULRSGs such ULRSGs will submit information on companies in which they have majority ownership, as well as any changes in their work (for example in the structure of ownership, changes to members of management and supervisory boards) and regularly publish such information on their web pages



in an easily searchable way, in a machine readable form, and with an emphasis on their openness and reusability. This will allow a constant update of the Register of companies in majority ownership of ULRSGs and strengthen supervision over their work with the aim of enhancing the transparency and management of corruption risks in this area.

#### **4.1.3. Effective human resources management and provision of public administration services**

##### **Revision of Salary Determination System in Public Administration and Public Services**

Effective human resources management will be achieved through measures that will stimulate expertise and award the performance of each employee. We will therefore revise the payroll system of public administration and public services in order to create a stable and professional management that will contribute to a more favourable business environment, remove administrative obstacles to business activity and investments, and ensure a better quality service for citizens and entrepreneurs. A new payroll model, which implies the introduction of a payment grade and payment class system, will rest on the principles of de-politicisation, promotion of competencies, expertise, performance and accountability for the results of work. Monitoring the quality of work and the efficiency of employees in accomplishing work tasks are the basis for deciding on promotions and rewards of employees, and are aimed at motivating them to perform better and more efficient work.

Revision of the salary determination system in public administration and public services will be conducted in two phases. In the first phase, a payroll system for civil servants will be established by the end of 2017 and expand to wider public services by the end of 2018. The payroll system applied for civil servants will be reviewed on the basis of a pilot project that will be implemented on a selected sample that includes 5 ministries (MLPS, MPA, MDFYSP, MEC and MSE). The objective of the pilot project is to establish a complete human resource management system, to develop a complexity analysis for jobs, to determine the criteria for evaluation and validation of work performed by employees, and to link all relevant job and employee information needed to prepare a unique preliminary catalogue of work on the sample.

At the same time, we will carry out an analysis of competencies needed to perform certain types of work and an analysis of existing competency frameworks in the Republic of Croatia (at institutional level) and EU Member States. The introduction of a competency framework for employees is an important step towards a higher level of professionalism in public administration. General and specific competencies for public administration work should be the same for comparable categories of employees performing similar jobs of the same complexity and the same level of education. The implementation of these measures will result in the proposal of a draft of general and special competencies for public administration employees, the development of a methodology for the assessment of competencies, the creation of 40 competency profiles for selected jobs in public administration and the establishment of a single human resource management system in public administration, which encompasses a quality classification system that will enable the introduction of a stimulating, objective and fair system of rewarding and career advancement as well as a competency-based employment system.

In order to provide a sound basis for adequate administrative capacities and, in particular, efficiency in the planning and implementation of EU funds and EU instruments in civil and public services in the context of a comprehensive human resources management reform, we will define the competency profile for performance of these tasks, conduct a current situation analysis and make recommendations for the development of career path and development scale which will then be integrated into a comprehensive human resource management policy for public administration and public services.



## **Enhancement of the System of Collective Bargaining on the Conclusion of Collective Agreements which are Binding for the Government of the Republic of Croatia**

The policy for the payroll of state and public service employees whose salaries and other material rights are secured in the state budget or treasury funds according to special regulations, and public institutions that realise funds under the health insurance contract concluded with the Croatian Health Insurance Fund (CHIF) has a significant impact on negotiating due salaries by collective bargaining, which is largely represented, both at the level of employment of civil and public services, and at the level of contracting specific rights in the area of an individual public service. The method of determining salaries through the improvement of the collective bargaining system on conclusion of collective bargaining agreements by the Croatian Government is insufficiently coordinated, thus allowing great differences in procedural provisions. We therefore need to establish a coordinated system of collective bargaining for civil and public services.

A coordinated approach to collective bargaining procedures will be achieved through the establishment of a unit at the central SAB which will be responsible for coordinating the relevant central SABs in the negotiating process of concluding collective bargaining agreements for civil and public service employees for whose salaries and other material rights the funds are provided in the state budget. This will ensure transparency and legal certainty in planning, preparation, conclusion and monitoring of the application of collective agreements, thereby positively affecting the improved financial management of funds provided from the state budget.

## **Improvement of Strategic and Implementation Framework for Fight Against Corruption**

Based on the Anti-Corruption Strategy for the period 2015-2020<sup>36</sup> we will adopt an Action Plan for the period 2017-2018 that will include: activities for the neutralisation of corruption risks elaborated within the measures set out in certain sectoral areas of the Strategy; competent bodies for the implementation of the planned activities; clearly indicated deadlines; necessary financial resources and indicators of the implementation of planned activities. Moreover, in addition to the existing system of monitoring the implementation of strategic and enforcement documents related to the suppression of corruption articulated through the work of the National Monitoring Council for the implementation of the Anti-Corruption Strategy, the Anti-Corruption Council will be established to act as a working body of the Croatian Government in the process of formation, improvement and systematic monitoring of implementation and assessment of the impact of measures and activities in corruption prevention planning acts with a view to ensure the consistency of the entire process of action of due anti-corruption mechanism.

Furthermore, we will develop Guidelines for management of conflict of interest in order to help establish procedures for identification, management and resolution of conflicts of interest in public administration. The purpose of these Guidelines is to: assist public administration bodies to establish an effective conflict of interest management policy that will contribute to strengthening citizens' trust in ethics of public administration and its employees; provide a practical framework for assessing the existing solutions and establishing new mechanisms in line with good practice; promote the practice of good management of conflict of interest in individual public administration bodies in view of their specificity or field of activity; support cooperation between public administration, private and non-profit sector in accordance with clearly defined responsibilities and ethical standards of each individual party in the process of such cooperation. In addition to the Guidelines, we will compile a Handbook for the management of conflict of interest in order to protect the integrity of public administration employees and the entire system.

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<sup>36</sup> OG, No. 26/15



The Public Sector Ethics Act will be adopted, which will apply to employees in SABs and other state and administrative bodies and bodies of ULRSGs, as well as legal entities and other bodies with public authority, legal entities performing public service, legal entities established by the Republic of Croatia or ULRSGs, legal entities financed on the basis of a special regulation, predominantly or wholly from the State Budget or from the ULRSGs budget and companies in which the Republic of Croatia or ULRSGs have separate or majority ownership. The Act will in a uniform manner prescribe the ethical principles, institutional framework and basic standards of behaviour of employees, state officials, public officials and members of ULRSG representative bodies. The Code of Ethics of Civil Servants will establish the rules of conduct of civil servants and ethical principles which civil servants should follow. Such rules have still not been established for officials in administrative bodies and ULRSG services, employees in public institutions and other legal entities established by the Republic of Croatia, i.e. ULRSGs, state and/or ULRSG owned companies, and other persons who, under law, have public authority. Therefore, in order to improve ethical standards and establish high ethical standards in the performance of work at all levels, we will propose the adoption of an act that would uniformly prescribe the basic standards of behaviour and treatment of public sector employees towards citizens and other public sector parties, the obligation to adopt the Code of Ethics, and regulate the institutional framework for strengthening the ethical system at all levels of public bodies.

### **Improving the Monitoring System of Administrative Procedures**

The General Administrative Procedure Act<sup>37</sup> (GAPA) is a general procedural law that as one of its basic principles has the principle of efficiency and economy, which implies the resolution of administrative matters in the simplest, quickest and most cost effective manner. In order to ensure the above, it is necessary to systematically follow the application of the GAPA. Improving the administrative management system will contribute to improving administrative capacity and transparency of public administration in the Republic of Croatia and ensure timely, reliable and quality public service for all users.

A national monitoring system for the implementation of the GAPA will be established through a decentralised reporting system that is planned to be introduced into all public bodies and managed by the Ministry of Public Administration (MPA). A specifically designed and functional IT system will enable monitoring of the GAPA institute application at the administrative level, and, in regard to public bodies, at the level of individual process. Ministries will, in accordance with due legal obligation, monitor the legality, efficiency and effectiveness of the implementation of administrative procedures within their sphere of competence. MPA will, on the basis of collected data, prepare a report for the Croatian Government, as well as all other necessary reports. The discrepancies observed in the implementation of the GAPA will be eliminated by giving instructions, organising training for civil servants, administrative and inspection supervision and, if necessary, proposed changes to regulations, as well as simplification of procedures and/or their computerisation. In addition to the development and establishment of the IT system, we will provide training of all participants in the process of development and establishment of the system, and test the system on selected stakeholders.

### **Rationalisation and Industrialisation of State Information Infrastructure and Easier Access to Services Provided by Public Administration**

In order to rationalise the cost of establishing and maintaining state information infrastructure, we have adopted the Decision on establishing the state cloud managed by the Shared Service Centre that will represent the place where public sector bodies share their information and communication

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<sup>37</sup> OG, No. 47/09



equipment, and e-services. We will establish the Shared Service Centre that will offer the following shared services: accommodation services for ICT equipment (FaaS); infrastructure Services (IaaS); technical services (PaaS); central interoperability system; business services (SaaS); advisory services for the application of Information and Communication Technology (ICT) (CaaS). Services offered by the Shared Service Centre will be used by public sector bodies that do not have adequate solutions for their respective data centres, in accordance with the regulations in force. For public administration bodies that have data centres that meet the prescribed criteria while respecting the principle of cost-effectiveness and efficiency, specific transition programmes can be defined, i.e. integrated with services of the Shared Service Centre. At the same time, all public administration bodies will use the central interoperability system.

Establishing standards of public administration management is the first step in the continuous raising of the quality of public administration activities with a view of more rational use of resources and achieving customer satisfaction. We plan to continuously establish unique administrative sites in the real and virtual world with the aim of facilitating the communication of customers with public bodies in a simpler way and in the most convenient places, enabling the customer to communicate with public administration bodies from one place and in a much faster and easier way. Basic assumption for the establishment of single administrative sites is the informational link between public bodies and the availability of central registers, as well as the preparation of applications based on streamlined processes that require good internal links and coordination of public bodies. The digitisation of documents received on paper, as well as the digitisation of the process of managing letters, is the basic process that needs to be computerised in a single administrative site in the real world. Furthermore, we will design a system of forms which will ensure the submission of applications related with public administration through a single administrative site in the real and virtual world.

#### **4.1.4. Removal of institutional, organisational and functional fragmentation in public administration**

### **Overall Normative Organisation of State Administration and its Operations, and Rationalisation of the System of Legal Entities with Agency Type Public Authority**

Pursuant to the State Administration System Act<sup>38</sup>, governmental affairs are performed by SABs. Ministries, central government offices and state administrative organisations represent central SABs, while state administration offices in counties represent the first instance SABs that are established for the performance of state administration activities in several administrative areas within counties. The State Administration System Act allows for the assignment of certain state administration tasks to ULRSG bodies and legal entities with public powers. This issue is, however, not elaborated in more detail. Consequently, there are no criteria for entrusting such tasks, nor is it explicitly defined which public administration tasks can be entrusted to ULRSG bodies and legal entities with public powers, all of which contributes to the disorder and lack of clarity in the system.

In view of the aforementioned, the Act will determine which functions and tasks are to be performed by the central and which by the first instance SABs, and more precisely define the content of particular functions and activities. Moreover, it will establish common criteria for the assignment of government affairs (which public administration activities may be entrusted to legal entities holding public authorities and which are to be reserved exclusively for central SABs). This implementation will create conditions for a comprehensive and systematic transfer of first instance administrative and other activities from the ministries to state administration offices in counties and legal entities with public authority.

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<sup>38</sup> OG, No. 150/11, 12/13 – Decision of the Constitutional Court of the Republic of Croatia, 93/16 and 104/16



In the absence of a unified legal arrangement that would apply to agencies and due established position of such legal entity in the existing public administration system, the basic feature of the Republic of Croatia is the institutional, organisational and functional lack of clarity. Lack of unified legal criteria for entrusting public administration affairs or establishing legal entities for the organisation of performing functions that had not previously been done has enabled the establishment of new legal entities whose founding acts address the issue of agency structure and procedures in various ways, most often without either an overall assessment of the justification of their establishment and expected effects, or the establishment of clear mechanisms of control, accountability and efficiency measurements. Consequently, due to the lack of a unified legal regulation of agencies, there are significant differences between individual legal persons in relation to: establishment, type of work performed (regulatory, executive-operational and professional-analytical), organisation, management, responsibility, supervision, financing sources, legal status of employees and other issues.

Legal regulation of the conditions for the establishment and operation of legal persons with public authority of the agency type will set a legal framework for the unified organisation of legal persons with public authority of the agency type. The law will define: the concept of agencies and the concept of regulatory authority, i.e. regulatory agencies; criteria for establishing agencies, including the criteria of independence; the issue of supervising the legality of agency activities to be regulated in a unified way; the content of supervision over the lawfulness of the work and measures that the supervisory authority can implement; responsibility for the work of the agency and oversight of the lawfulness of the work of the agency towards the same body; and agency management and agency financing. The law will also: ensure that employees in all agencies are subject to provisions regulating salaries in public services; ensure that the supervision of financial operations of legal persons with public authority of the agency type is performed by the MF; establish criteria for internal organisation, establish official records of agencies (specific and regulatory agencies); determine the obligation to publish a statute, an internal organisation document, work reports and financial reports, etc.

Defining criteria for the establishment and operation of agencies will prevent unnecessary establishment of new agencies in the future. The number of independent agencies is expected to decrease by about 20%.

### **Rationalisation of first-instance bodies and SAB's regional units**

The structure of first-instance tasks performed by state administration offices, their branch offices and regional units, as well as branch offices of central SABs is currently fragmented and not rational. State administration tasks are performed by central SABs and first-instance SABs (state administration offices across counties), established with the purpose of performing state administration activities in several administrative areas within counties. Performance of state administration tasks over the past period was marked by a trend of task centralisation, especially with regard to inspection activities, as all inspections performed in the first-instance by state administration offices in counties were gradually transferred to central SABs. This trend has caused a decrease in legal certainty of citizens, considering the volume of first-instance and second-instance tasks performed by the same state administration body. Centralisation of such tasks over the last few years also greatly reduced the scope of tasks performed by state administration offices in counties which were established for the very purpose of carrying out these deconcentrated state administration activities. By assuming these tasks, central SABs also took over servants of the state administration office, whereby tasks are carried out by regional units of central bodies, commonly in places that share the location with headquarters of said office and its branches. On the other hand,





central bodies often use county state administration offices to perform on-site tasks from their field of expertise (receiving requests, collecting documentation, etc.). Bearing in mind that state administration offices were established to carry out activities of the state administration in counties as first-instance SABs performing tasks from various administrative areas (appropriated by different SABs), the existing structure, whereby specific tasks within the competence of central SABs in counties, cities and municipalities are carried out by a large number of regional units of the central SAB, has not been rational when viewed from the cost aspect, but also from the aspect of task organisation in providing services to users.

In order to better organise the aforementioned activities and achieve a more streamlined utilisation of human resources, perform tasks more efficiently and rationalise costs of internal administrative functions, it is necessary to consolidate state administration offices as basic and multifunctional bodies for performing first-instance tasks of the state administration by integrating specific regional units and branch offices of central SABs.

The merger of regional units will reduce the state administration fragmentation and ensure a quicker and more efficient treatment of citizens and entrepreneurs by the state. The operational load of ministries will be relieved due to the conferral of authority for resolving cases in the first instance from the ministries to the public administration offices, which will free up space for ministries to create and adopt new policies. The number of organisational units is expected to decrease by about 40%.

#### **Improving the legality of activities performed by bodies governed by public law by ensuring an efficient, quality and timely administrative inspection**

The new Administrative Inspection Act will transfer inspection activities regarding ULRSs and legal persons with public authority established by ULRSs from the MPA to state administration offices in counties, which will ensure an efficient, timely and economical performance of administrative inspection activities, with uniformity of inspection procedures being achieved by introducing electronic records. The MPA would retain supervision over central SABs, other state bodies, state administration offices in counties and legal persons with public authority established by the Republic of Croatia. Should it be necessary, the MPA could carry out inspection activities in bodies which are supervised by state administration offices.

Taking into consideration the extensive scope of administrative inspection, and especially the territorial distance of supervised entities in relation to the registered office of the MPA, i.e. administrative inspection (supervised bodies across the entire territory of the Republic of Croatia), the execution of direct inspections is closely associated with additional costs (e.g. travel and accommodation expenses for inspectors in places of supervision). Furthermore, due to these additional costs, administrative inspectors would not be able to carry out supervision at a time which would be considered optimal for this type of supervision, so the short period of time in which direct supervision is carried out (one to two working days for one supervised entity) prevents the achievement of overall objective and purpose of supervision, and effects the quality of supervision's performance.

Implementation of the aforementioned will increase the number of inspections and ensure continuous supervision of such bodies, while reducing the cost of direct inspections. Inspections will be carried out in an optimal time frame required for such supervision, which will contribute to enhancing the educational role of administrative inspection and quality of work of supervised entities.





## Establishing the model of functional and fiscal decentralisation

Limited capacities of numerous ULSGs and their inconsistencies have resulted in drastic differences in the number and quality of public services, which pose an obstacle to further decentralisation. The solution to this problem will be based on developing a proposal for a model of sustainable functional and fiscal decentralisation.

Given that the Republic of Croatia is still categorised as a highly centralised state, it is necessary to consider decentralisation as a significant process in the implementation of the principle of subsidiarity, according to which local activities have to be performed at the level which makes them most accessible to citizens. Local and regional self-government plays an important role in the management, organisation and direct provision of public services to citizens. In an effort to build an effective, efficient and economical public administration, we must establish an effective system of local and regional self-government. ULSGs should be given appropriate administrative and financial capacities to carry out quality, efficient and independent planning, financing and provision of services under its statutory scope, as well as handling new tasks and performing decentralised activities taken over from central state administration.

Rationalisation of the local self-government system requires the following: strengthening administrative and financial capacities and autonomy of ULSGs; expanding the scope of their self-governmental activities; enhancing the autonomy of units in planning, financing and providing services in accordance with the subsidiarity principle; creating preconditions for assigning specific tasks of the central state administration to local and regional self-government units; improving collaboration and coordination between central state administration and local and regional self-government units with regard to planning and implementation of local and regional projects; reducing the overall administrative cost of local self-governments; ensuring a more rational provision of financial resources from the central government to local self-governments; and improving local democracy with increased citizen participation in decision-making processes.

The ULSG financing system is largely determined by the Act on Financing of ULSG<sup>39</sup>, Act on Regional Development of the Republic of Croatia<sup>40</sup> and Acts on the Execution of the State Budget, which are adopted annually based on the Budget Act<sup>41</sup>. As the complete and comprehensive tax reform implemented last year was largely based on reducing the tax burden, including changes of the income tax system, it was necessary to thoroughly analyse the ULSG financing system. This analysis has identified the need for improving the ULSG financing system, i.e. modifying it to make it more simple, but also achieving greater equity and ensuring minimum financial standard in all ULSGs. To achieve this, Article 52, paragraph 4 of the Act on the Execution of the State Budget of the Republic of Croatia 2017<sup>42</sup> stipulates that the MF will propose a new financing model for ULSGs in 2017, and no later than 31 May 2017. Furthermore, in February 2017, the Minister of Finance issued a Decision on the establishment of a commission for the development of a new model of the ULSG financing system which prescribes its tasks and deadlines of execution.

For the purpose of developing a new model of the ULSG financing system, the Commission will: analyse the existing income tax revenue allocation system and the system for financing decentralised functions along with the associated regulatory legal framework; analyse the existing system for allocation of resources from the state budget to ULSGs, allocations made by the MF and the regulatory legal framework; create simulations of the proposed distribution of income tax revenue,

<sup>39</sup> OG No. 117/93, 69/97, 33/00, 73/00, 127/00, 59/01, 107/01, 117/01, 150/02, 147/03, 132/06, 26/07, 73/08, 25/12, 147/14, 100/15 and 115/16

<sup>40</sup> OG, No. 147/14

<sup>41</sup> OG, No. 87/08, 136/12 and 15/15

<sup>42</sup> OG, No. 119/16



including dedicated revenues for the financing of decentralised functions; create simulations of the proposed allocation with regard to fiscal equalisation, and develop a draft of the new Act on Financing of ULRSG.

Developing a new model of the ULRSG financing system will result in a simpler and more transparent income tax revenue allocation system and the system for financing decentralised functions, as well as the creation of a new system for allocation of resources from the state budget to ULRSGs for the purpose of achieving fiscal equalisation or mitigation of inequality between fiscal capacities of ULRSGs.

#### **4.1.5. Improving the efficiency of the judicial system**

##### **Reducing the duration of court proceedings and number of pending cases**

Basic problems burdening the judicial system are caused by a large number of pending cases and the length of court proceedings. To eliminate these problems, further reorganisation of the judicial system will be carried out by merging misdemeanour courts with municipal courts. The volume of cases handled by misdemeanour courts has drastically decreased due to previously implemented reform measures, while municipal courts are still burdened with a large number of cases, especially in the field of civil litigation. The purpose of such a merger is to ensure a uniform burden placed on judges in first-instance courts and to strengthen the capacities of courts processing the largest number of cases, which will shorten court proceedings and reduce the number of pending cases.

The possibility of reorganising the second-instance court system will also be taken into consideration in order to improve the efficiency and uniformity of judicial practice.

Furthermore, we plan to redefine authority and powers granted to court and state attorney advisors in specific case types in order to unburden judicial officials from administrative tasks and enable them to devote their time to solving the most complex cases.

##### **Improving work organisation and management of judicial bodies**

A new management function will be introduced - the Director of Judicial Administration - for the purpose of modernising the judicial administration (management in judicial bodies) by strengthening management capacities and tools. Introduction of the Director of Judicial Administration function will integrate and optimise court operations, unburden court presidents from tasks that do not require legal, but organisational, financial or managerial knowledge and experience. Various standards and parameters for measuring and reporting key processes in judicial bodies will also be defined for the purpose of developing quality management tools. Furthermore, a new mandatory education will be implemented for newly appointed court presidents which will focus on management aspects, together with mandatory creation of activity plans and reports on the implementation of such activity plans. Planned activities will also result in additional savings and more rational management of resources needed for judicial bodies.

##### **Strengthening professionalism in the judicial system**

In order to accelerate task performance and achieve greater efficiency and transparency in appointing and evaluating judicial officials, since this activity is unreasonably long and subject to very frequent objections regarding insufficient objectivity of used criteria, as well as the implementation of these procedures, the legislative framework will provide clearer, fairer, and more effective solutions regarding the appointment and evaluation of judicial officials. It will simplify and shorten the procedure for appointing and dismissing judges and deputy state attorneys, as well as heads of



judicial bodies. In order to improve the capacity and work of bodies responsible for the appointment and evaluation of judicial officials, the issue of professionalisation of their respective members (State Judiciary Council and State Attorney Council) must also be taken into consideration. The procedure for appointing the president of the court has to be updated with a more objective evaluation of proposed work programmes which the candidates will propose according to a standardised structure.

The system of education of judicial officials and servants will also be improved. Quality professional training of judicial officials, trainees and future judges and state attorneys is one of the prerequisites for an independent, efficient and transparent judicial system. Given the recent amendments to the Judicial Academy Act of 2015<sup>43</sup> which enabled persons who did not graduate from the State School for Judicial Officials to pass the final exam, the role of the State School for Judicial Officials will be defined as the prerequisite for holding judicial duties.

Due to the regulation of status and issues regarding work methods used by permanent court expert witnesses, assessors and interpreters, as well as prescribing new and better solutions to identified shortcomings, a new legal framework will be introduced which will regulate conduct and control of expertise and accountability of permanent court expert witnesses, assessors and interpreters. This will ensure their uniform performance in compliance with the rules of profession and specialisation, which will in turn bring about case law uniformity and speed up court proceedings. One of the greatest priorities in this sense is to prescribe a unique implementation of procedures for the appointment and dismissal of permanent court expert witnesses, assessors and interpreters, develop a system for supervising their work and establish competent professional associations which would handle their unique vocational education and training.

### **Strengthening legal certainty**

The new Bankruptcy Act<sup>44</sup> adopted in September 2015 and the Consumer Bankruptcy Act<sup>45</sup> adopted in May 2016 have created a new legislative framework which, on the one hand, created preconditions for a more effective restructuring process while, on the other hand, established mechanisms for early detection of businesses with financial difficulties and <sup>46</sup>ex officio initiation of bankruptcy proceedings. With regard to citizens, this is the first time that the possibility of consumer bankruptcy has been introduced in the legal system of the Republic of Croatia, intended to free honest debtors from remaining obligations during the monitored period. Two working groups have been established for this purpose which would analyse and monitor the impacts of adopted bankruptcy acts. Working groups have suggested during the first year of establishment to implement a systematic analysis and monitoring of bankruptcy laws, firstly by collecting and analysing statistical data, and then by analysing court practices and information provided by bankruptcy trustees, creditors and debtors.

The justification and necessity for this approach is also reflected in the Proposal for a Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU. The aim is for all EU Member States to establish key principles on effective preventive restructuring frameworks and other opportunities and measures which would make all types of bankruptcy proceedings more effective by reducing their duration and associated costs, and improving their quality. The Proposal

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<sup>43</sup> OG, No. 82/15

<sup>44</sup> OG, No. 71/15

<sup>45</sup> OG, No. 100/15



for a Directive is based on the 2014 recommendation on a new approach to bankruptcy and insolvency, and inter alia ensuring that debtors and entrepreneurs have access to early warning tools that can detect deteriorating business trends and signal to debtors or entrepreneurs when there is need for taking urgent action, while suggesting the collection and aggregation of numerous data for the supervision of restructuring, bankruptcy and release of outstanding debts.

Monitoring the effects of new bankruptcy proceedings will be continued with the objective of actively monitoring the application of law in procedures intended to preserve relevant businesses and giving “a second chance”, or procedures for the effective liquidation of unsustainable businesses, with the aim of further improving the legislative framework, harmonising court practices and increasing the quality of the judicial system, thus ensuring the legal certainty of the investor.

In order to ensure and strengthen the financial stability of the overall economy in cases where companies of systemic importance for the economy are faced with difficulties, the Croatian Parliament adopted the Act on the Procedure of Extraordinary Administration in Companies of Systemic Importance for the Republic of Croatia in April 2017<sup>47</sup>. The systemic importance is determined by the size of the company (total number of employees exceeding 5,000) and its indebtedness (liabilities amount to more than HRK 7.5 billion). The procedure of extraordinary administration enables the company to continue with normal business operations, while implementing financial, business and ownership restructuring. The ultimate objective is to reach an agreement between creditors on how to settle claims and implement restructuring, and improve business operations, with said process lasting no more than 15 months. Should the settlement process fail, the Act proposes that the company files for bankruptcy.

Improving the litigation proceedings represents a permanent need for an effective judicial system which must guarantee protection of human, personal, economic and other rights and freedoms, and is therefore a key element of any investment and business environment and entrepreneurship in general. Given that proceedings before commercial courts last a very long time, especially proceedings of the High Commercial Court of the Republic of Croatia, commercial courts will be unburdened from settling disputes between legal persons of no economic importance.

In addition to the aforementioned, increased legal certainty, transparency and quality of judicial proceedings, as well as shorter duration of such proceedings, will be achieved by implementing a new method of recording court hearings, simplification of rules on court costs allocation, promotion of amicable and out-of-court settlements, placing emphasis on using and presenting documents in proceedings before commercial courts and introducing what is known as the “demonstration proceeding”<sup>48</sup>.

Extrajudicial proceedings will be modernised for the purpose of achieving an effective judicial system. Namely, extra-contentious procedural law of the Republic of Croatia comprises legal rules prescribed by the Extrajudicial Proceedings Act of July 1934 which are applicable in some cases, but also a number of laws of primarily substantive character which also contain procedural provisions. The heterogeneity of sources, relations of legal regulations that reference provisions of other laws, inconsistency of regulations caused by differences in their respective creation dates and the absence of an adequate general part of the Extrajudicial Proceedings Act, all contribute to legal uncertainty.

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<sup>47</sup> OG, No. 32/17

<sup>48</sup> The purpose of the demonstration dispute is to ensure a uniform application of law and equality of all parties in cases where a number of similar proceedings have been initiated or multiple proceedings with the same legal issue are expected.



## **Further development of information and communication technologies in the judiciary system**

Further development of information and communication technologies in the judicial system will be achieved by continued digitisation of court cases (electronic files) and procedures (electronic communication). The objective is to enable electronic linking and communication between judicial bodies and other state bodies, as well as with citizens who would thus be able to communicate with the court or follow the proceedings electronically. This would expedite the work of not only judicial bodies, as the time for delivery and feedback is shortened (information exchange), but also of attorneys, expert witnesses, notaries and other participants in judicial proceedings.

The implementation of the e-File system at the Supreme Court of the Republic of Croatia will be completed, enabling electronic business within the Court, as well as electronic communication with all other courts using the e-File system. The introduction of the e-File system will ensure an objective and even distribution of cases to judges of the Supreme Court of the Republic of Croatia. Preparations will be made for additional upgrades of IT systems used by the judiciary during 2017. This, and other related measures will enable electronic linking and electronic communication between judicial bodies and citizens, as well as other participants in judicial proceedings, which will significantly shorten court proceedings. Electronic record keeping will be introduced in certain judicial bodies which will significantly shorten the duration of respective proceedings and enable the redistribution of administrative capacities. New judiciary e-services for citizens will also be developed. These will make it possible for citizens to obtain necessary documents regarding pending criminal proceedings and certificates from criminal and misdemeanour records via the e-Citizens system.

## **4.2. Increasing employability and aligning education with labour market needs**

### **4.2.1. Implementation of education, lifelong learning and labour market integration programmes**

#### **Education of unemployed persons to perform deficit jobs in the labour market**

In order to simplify active employment policy measures and focus them on groups which have difficulties with employability, the Managing Board of the Croatian Employment Service adopted in February 2017 a package of active employment policy measures with a particular focus on educational measures.

The Plan for the Education of Unemployed Persons in 2017 is based on specific needs of the labour market in various parts of the Republic of Croatia (e.g. labour market demand, unemployment status records, availability of institutions and programmes, availability of traineeships for individual programmes, etc.). Educational activities are aimed at increasing the employability of unemployed persons, especially vulnerable groups such as those that have lost work competencies due to long-term unemployment, and those lacking qualifications that are required in the labour market. Moreover, considering that the available labour force often doesn't have the required level of skills and professional knowledge required by employers, it is necessary to enable the acquisition of additional skills related to vacant jobs by placing special attention on the stimulation and education of the unemployed. Educational activities ensure better employability of unemployed persons in areas with the greatest shortage of skilled workers (e.g. tourism, construction, shipbuilding etc.). The plan is to cover more than 9,500 unemployed persons with educational measures in 2017.

#### **Raising the quality of adult education systems and increasing the availability of education programmes to adults**



In order to increase the quality of the adult education system and align it with the new paradigm introduced by the Croatian Qualifications Framework Act<sup>49</sup> for developing qualifications and programmes, the newly adopted Adult Education Act will address the disadvantages of the existing adult education system, align the adult education system with the Croatian Qualifications Framework and competent legislative and normative solutions in regular vocational education, and create necessary preconditions for the implementation of the Strategy for Education, Science and Technology, with the emphasis on encouraging the development of lifelong learning systems. The new law also envisages the adoption of a specific ordinance to clarify the methods and implementation of certain activities within one year from the date of adoption of the aforementioned act.

The reasons for the adoption of the new Adult Education Act mainly lie in the need to harmonise the existing Adult Education Act<sup>50</sup> with the Vocational Education Act<sup>51</sup>, Croatian Qualifications Framework Act<sup>52</sup> and the Strategy for Education, Science and Technology. This new legal solution will improve the adult education system with regard to establishing and organising activities of adult education institutions due to the fact that a specific distinction is to be made between adult education institutions established exclusively for the education of adults (andragogic institutions) and adult education institutions performing other activities (other institutions), which would remove ambiguity regarding organisational and personnel issues. Long-term monitoring of activities performed by these institutions has shown the need for increasing the quality of the education process. Therefore, the Draft of the Proposal of the Adult Education Act stipulates that the director and the head of adult education must complete at least level 7 according to the Croatian Qualifications Framework, and the head of education has to possess a license for managing adult education activities.

In the area of adult education programmes' quality assurance, the Strategy for Education, Science and Technology (in the Lifelong Learning chapter) addresses the problem of inconsistency between the education programmes and the labour market, contributing to the lack of standardised learning outcomes. There is no legal option for rejecting programmes which are not relevant to the labour market, nor criteria for issuing expert opinions on such programmes. Consequently, education programmes which provide qualifications will be harmonised with the Qualification Standard from the CROQF Register, and education programmes which provide learning outcomes will be harmonised with the CROQF Sub-register of Learning Outcomes.

Furthermore, according to existing legal regulations, adult education institutions are granted an approval for the implementation of formal adult education programmes of unlimited duration from the Ministry of Science and Education (MSE), which means that some programmes are methodologically and materially outdated and sometimes inconsistent with changes in specific regulations. In order to ensure quality approach and implementation in this segment, the Agency for Vocational Education and Training and Adult Education (AVETAE) will initially evaluate programmes at CROQF levels 2 to 5 (apart from the programmes that are considered as higher education) and issue an accreditation recommendation (current professional opinion). Ministry of Science and Education will determine whether the adult education institution meets the requirements for programme implementation and will issue a decision on programme accreditation based on AVETAE's accreditation recommendations, and by reviewing relevant documentation and performing necessary inspection. This decision on programme accreditation will be valid for the same period of time as the accreditation recommendation (three to seven years).

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<sup>49</sup> OG, No. 22/13

<sup>50</sup> OG, No. 17/07

<sup>51</sup> OG, No. 30/09

<sup>52</sup> OG, No. 22/13





When discussing quality assurance of adult education systems, more than 590 adult education institutions are registered in the Republic of Croatia, but as there is no defined quality assurance system, no conditions for quality education have been ensured. The new decision will introduce a quality assurance system via self-evaluation and external evaluation of institutions to encourage institutions to improve implementation and management, working conditions and professional training of andragogic employees (adult education providers). These enhancements will help increase results achieved by trainees, which will be monitored by the proposed external evaluation of learning outcomes. Institutions will also have their activities monitored through the National IT System for Adult Education (NITSAE), which would contain information on programmes, participants, andragogic employees and financing of accredited programmes.

With regard to the professional training of andragogic employees, the new legal solution proposes a mandatory continuous vocational training in this sector, and in the field of andragogic competencies carried out by competent agencies and higher education institutions. A new andragogic professional exam will be introduced, which shall be considered a license obtained and periodically renewed by the andragogic employee. Programmes for acquiring andragogic competencies will be implemented by higher education institutions.

With regard to monitoring of adult education systems, the Ordinance on adult education records<sup>53</sup> prescribes the content and method of keeping records on institutions that have been granted the approval for implementing adult education programmes, programmes themselves, trainees, employees and records of other data relevant for monitoring the status and development of adult education activities. Said Ordinance stipulates that institutions are obliged to keep records on trainees, employees and programmes. Since it has been noticed that the institutions are not updating the records as requested, the new legal solution foresees the imposition of sanctions, with NITSAE being under the jurisdiction of the MCE.

Financial resources covering the costs of implementing basic adult education programmes which imply acquiring key competencies for lifelong learning shall be allocated from the state budget in accordance with the decision made annually by the Minister of Science and Education. Given that the criteria for the allocation of public funds have not been sufficiently defined, the new decision proposes that public funds for the implementation of formal adult education programmes be allocated to institutions solely on the basis of external evaluation of adult education institutions, and that public funds can be secured from other sources, such as EU funds.

Level of employability will be increased by improving the quality of educational programmes that raise basic and professional competencies of unemployed persons in order to increase their competitiveness in the labour market.

### **Employment and integration of Croatian Homeland War Veterans in the labour market**

Encouraging employment and integration of Croatian Homeland War Veterans in the labour market will be further elaborated within the framework of the new and comprehensive Act on the Rights of Croatian Homeland War Veterans and their Family Members. Namely, current state analysis has determined that existing measures aimed at integrating war veterans in the labour market need to be improved. Consequently, special attention will be given to improving the rights related to employment and better regulation of employment provisions with a view to ensuring greater competitiveness and protecting the dignity of Croatian Homeland War Veterans, with a stricter control of compliance with legal provisions. Additional efforts will also be made to encourage self-

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<sup>53</sup> OG, No. 129/08





employment, including employment opportunities while retaining the rights granted under the war veteran status.

#### **4.2.2. Harmonisation of educational programmes with labour market needs at the level of vocational and higher education**

##### **Implementation of the Croatian Qualification Framework (CROQF)**

In order to achieve a faster and better alignment of educational programmes with the needs of the labour market we plan to continue the establishment of the institutional framework for the implementation of the Croatian Qualifications Framework (CROQF). Quicker adaptation of educational programmes to the requirements set by the economy and improved alignment of educational activities with labour market needs will be achieved by developing and customising occupational and qualification standards, evaluating these standards and entering them into the CROQF Register, followed by the harmonisation of educational programmes with qualification standards from the CROQF Register. In addition, by educating members of the sector councils and appointing the remaining 17 sectoral councils we will prepare for the evaluation of occupational standards and qualification standards, which is one of the key tasks of the sector councils under the CROQF Act. Concurrent analysis of the institutional framework and system functionality will evaluate the effectiveness of the existing model.

By implementing this measure in the evaluation process, at least 20 occupational standards and qualification standards should be identified and submitted for entry into the CROQF Register by relevant educational institutions and/or other natural and legal persons. Following the Decision on the entry of occupational standards and qualification standards into the Register, educational institutions will be able to align their educational programmes with the qualification standard from the CROQF Register and thereby improve their educational programmes and assign them a specific level of the CROQF and the European Qualifications Framework which will improve coordination between education and the labour market.

##### **Improving the relevance of vocational education and training in relation to the labour market and its quality**

In order to improve the relevance of vocational education and training in relation to the labour market, measures will be taken involving the creation, adoption and implementation of the NCVE, which will establish the purpose, values, objectives, contents, learning and teaching processes, organisation and methods of evaluating student achievements, competencies and qualifications in the vocational education system of the Republic of Croatia. Furthermore, measures will be taken to prepare, adopt and monitor the implementation of sector and/or curricula for the acquisition of vocational qualifications, enabling greater flexibility and autonomy of educational institutions when choosing the content and work methods, and enabling students to acquire competencies tailored to their professional and personal development, economy and local communities. This measure includes the strengthening of the WBL in a way that will be clearly emphasised and promoted within the NCVE, and elaborated in detail for each sector within the sectoral curriculum, for qualifications in particular (levels 3, 4.1 and 4.2). Work-based learning will be permanently promoted by employers with a view of their greater and longer involvement in the educational process, as well as the provision of a sufficient number of positions for students in economic entities and institutions. A key element for successful improvement of the implementation of this model is the continuous education and training of mentors at the company of the employer who are in charge of students during their stay in economic entities and institutions.



Amendments to the Vocational Education Act will be introduced for the following purpose: firstly to eliminate any discrepancies and overlapping of the Vocational Education Act and the CROQF Act; to enable the development and design of new vocational curricula for acquiring vocational qualifications required by the labour market; preparation of a simpler model of pedagogical education of mentors at companies of employers; establish partnerships that will ensure and encourage the involvement of all stakeholders in all phases of planning; establishment of a better quality assurance system and design of a system that will enable lifelong learning and mobility.

Establishment of a model of vertical and horizontal mobility of students in vocational schools will enable a specific flow within the system that will contribute to the development of a more flexible education system. A rational and effective network of vocational schools and programmes, which implies rationalisation of the network of vocational schools and programmes based on physical, material and human resources and work-based learning opportunities, in line with national and regional labour market needs, will create conditions for enhancing the quality of vocational schools and achieved competencies necessary for accessing the labour market. This includes establishing regional competency centres that will implement education programmes, as well as provide professional training to teachers and lifelong learning activities.

A coherent quality assurance system will also be established, including the unified quality assurance system for vocational education and training. Quality assurance in vocational education and training is not only about monitoring teaching quality and conditions, but also whether such education is “purposeful” - whether it meets the needs of the students and the labour market. Furthermore, the self-evaluation model will be modernised and the quality assurance system will be linked with the external educational institutions evaluation system, together with mechanisms for monitoring the quality and efficiency of vocational education and improving the system based on measurable indicators. Capacities of VET institutions will also be strengthened for the purpose of implementing a unified quality assurance system for vocational education and training.

Taking into consideration new and complex circumstances of fast-paced technological development, as well as changed social relationships and labour market needs, we will improve and adapt our system of continuous professional development in vocational education and training. Teachers will have to obtain specific licences to work in educational institutions in accordance with competency standards for the teaching profession, which will be harmonised with CROQF standards. Capacities of vocational teachers and mentors will be strengthened accordingly.

In order to make vocational education and training in the Republic of Croatia more attractive, it is necessary to increase its reputation and promote vocational education and training as a desirable career choice. Therefore, we will promote skills gained by students in vocational programmes, modernise and promote vocational education and related skills. A new competition and contest model will be introduced across all sectors. Communication strategy will be developed for providing information on competitions and contests intended for different stakeholders. Important promotional elements related to vocational education will be focused on primary school pupils and will include the development of a national web platform for information and promotion of vocational education. Improvement and continued systematic support for simulated business environments and processes in secondary schools (trainee company concept) is also planned, together with the introduction of a similar model in primary schools. This also covers support for innovation and vocational training projects aimed at capacity building and ensuring a relevant, creative and modern vocational education and training in partnership with companies and the community as a whole. Furthermore, activities aimed at improving career guidance of students prior to and during vocational education and training are also included, as well as incentives for programmes and



projects for stimulating the inclusion of all groups which are at risk from being excluded from education.

With regard to internationalisation of vocational education and training, and promotion of international student and teacher mobility, we plan to develop and strengthen opportunities for greater mobility of students and teachers and support the international dimension of vocational education and training. Recognising mobility periods as an integral part of the education process facilitates the employers' understanding of the qualifications acquired abroad by trainees. We will also continue to promote the implementation of Europass certificates and other Europass documents relevant to students and teachers within the VET system.

### **Increasing the representation of traineeship in higher education**

The Strategy for Education, Science and Technology highlights a lack of student traineeship in some of the study programmes. Furthermore, the Strategy emphasises that study programmes are still lacking methods of developing transversal competencies such as communication and presentation skills, management skills, or entrepreneurship. The quality of professional traineeship is a prerequisite for acquiring competencies in many study programmes, as well as a prerequisite for better student employability and better preparedness for future employers' requirements. Based on the results of the analysis on the representation of traineeship in higher education, carried out by the Institute of Economics, Zagreb, in October 2016, a call will be sent out to traineeship holders for which the funds have been provided under the Operational Programme Effective Human Resources 2014-2020 - Development and improvement of the learning model through work and implementation of an improved model of professional practice in higher education. The total value of the call amounts to HRK 48 million (EU and national co-financing) with projects being implemented by higher education institutions. Announcement of the call is scheduled for November 2017. Related activities will include: developing a model of professional traineeship by developing learning outcomes and procedures for evaluating acquired learning outcomes; improving the quality of traineeship/apprenticeship by creating traineeship/apprenticeship programmes based on learning outcomes and procedures for evaluating acquired learning outcomes; improving the mentoring and professional traineeship system and implementing professional traineeship (establishing/improving career development centres in higher education institutions and encouraging employers to join professional traineeship programmes). Envisaged activities are complemented by the summary of the "Implementing CROQF in higher education" (open call) operation, which among other things includes activities aimed at improving professional traineeship and apprenticeship. Announcement of the call is scheduled for May 2017.

### **Improving the quality assurance system in higher education**

Adoption of the new Act on Quality Assurance in Science and Higher Education will help improve the quality assurance system and solve structural issues regarding quality assurance in science and higher education. Quality assurance procedures will be upgraded and aligned with the CROQF methodology and new European standards and guidelines for quality assurance in higher education, while also providing cross-border higher education services in accordance with the Services Directive (2006/123/EC) and the Services Act. Existing structural problems within the quality assurance system will also be resolved, which will increase the overall quality of the system, and ultimately contribute to sustainable development of the economy and society as a whole. Use of budget resources invested in science and higher education will also be improved.



## **Development of the validation of non-formal and informal learning system**

The adoption of the Strategic Plan for the development of the validation of non-formal and informal learning system constitutes a first step in establishing a complex system for the validation and evaluation of non-formal and informal learning, as it will encourage a broader debate on the institutional responsibilities of stakeholders involved in the process. Article 19 of the Croatian Qualifications Framework Act stipulates the adoption of the Ordinance on recognition and validation of non-formal and informal learning which will define the rights of individuals regarding validation and recognition of non-formal and informal knowledge and skills.

Concurrently with the implementation of the CROQF we will develop qualification standards that will serve as the basis for creating a programme for evaluating and validating non-formal and informal learning. The long-term goal of this measure is to enable evaluation and validation of previously acquired knowledge and easier employment of individuals with competencies acquired outside the traditional education system.

### **4.2.3. Implementation of the education reform**

#### **Enhancing and improving the system at the level of early, preschool, primary and secondary education**

Education reform is a pivotal strategic starting point for the Government of the Republic of Croatia. Education reform began more than a decade ago with the drafting of the Croatian National Educational Standard and the adoption of the National Curriculum Framework for pre-school education, general compulsory and secondary education (NCF), which created key conditions for deeper curriculum developments in the education system on a national level, including the creation of curricula for each education level, as well as subject curricula. The Strategy for Education, Science and Technology is focused on eight development objectives with regard to early, preschool, primary and secondary education system.

In accordance with the Strategy, comprehensive education reform has the following objectives: improve the development potential of educational institutions; carry out a comprehensive curricular reform; change the structure of primary education; improve the quality of work and social standing of teachers; improve the quality of management in educational institutions; develop a comprehensive support system for students; ensure optimal work conditions for educational institutions; establish a quality assurance system.

To ensure stability and continuity of the education reform, the Government of the Republic of Croatia plans to take into consideration and include different approaches and opinions. To achieve this objective new members of the Special Expert Committee for the implementation of the Strategy of Education, Science and Technology and coordination of strategies and activities in the field of education and science were appointed in January 2017. The Committee consist of 11 prominent experts who held numerous public duties.<sup>54</sup> The Committee is working intensively on developing a two-year Action Plan for the implementation of the Strategy by identifying priorities in each area.

Our objective is to implement the education reform in the coming period and establish foundations for continuous improvement of the system at the level of early, preschool, primary and secondary education. The measure with which we intend to achieve the aforementioned includes the following: (1) application of the curricular paradigm according to educational outcomes and encouragement of teaching and learning methods that enable the active role of students in the learning/teaching

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<sup>54</sup> The composition of the Committee is based primarily on expertise, whereby principles of pluralism and inclusiveness were adhered to when selecting Committee members.



process, the application of innovative subject/inter-subject/modular curricula for primary and secondary education and curricula for acquiring vocational qualifications; (2) development of vocational standards and qualification standards by applying the CROQF, and development and innovation of vocational curricula; (3) establishment of a single quality system at all levels of education, taking into account the results of national examinations and the results of external evaluations, in particular in relation to CROQF; (4) provision of professional prerequisites for the implementation of curricular reform through continuous professional development programmes for teachers/professors, expert associates and principals; (5) provision of professional materials for educators, teachers/professors, expert associates and principals related to the curricular approach; (6) provision of state pedagogical standards and appropriate equipment necessary for the implementation of the enhancement and improvement of learning outcomes and application of innovative curricula/modules (e.g. STEM equipment for classrooms/cabinets, didactic equipment); (7) enabling appropriate information to professionals and the public about the objectives of the education reform in early, preschool, primary and secondary education; (8) optimisation of the network of schools and programmes.

### **4.3. Sustainability of public finances**

#### **4.3.1. Strengthening the framework for public financial management and implementation of fiscal consolidation**

##### **Establishment of the system for strategic planning and development management**

The objective is to create a comprehensive and efficient strategic planning and management system, within the framework of the strategic planning and development management system, with clearly defined elements, stakeholders and resources in order to achieve a balanced socio-economic development in the long run. The establishment of the system means improving the coordination, planning procedures and monitoring of the implementation of strategic documents to ensure their coordination and compliance. It also implies setting a clear link between strategic documents and the state budget, as well as enhancing the analytical approach that connects the implementation of objectives with policy development measures with performance indicators that will help evaluate the effect of achieved objectives and implementation of development policy measures on economic indicators and development indicators.

Due to the fact that the Republic of Croatia currently has no comprehensive system for strategic development planning, establishing a sustainable and functional system for strategic planning and development management is crucial for socio-economic development and improvement of macroeconomic indicators. The implementation of the aforementioned includes the following: adopting a new legislative framework (Strategic Planning and Development Management System Act); implementing a new strategic planning model in all SABs for short-term and budget planning; developing and adopting a methodology for drafting strategic documents (in the form of bylaws); establishing an IT system for planning, monitoring and reporting; having 50% of senior officials complete strategic planning training and 100% of bodies with harmonised job descriptions; adopting the National Development Strategy of the Republic of Croatia 2021-2030 as the main national strategic document for defining national development priorities which will be used as the basis for developing medium-term (multi-)sectoral strategies and securing EU funds in the following financial perspective.



## **Improving the fiscal framework**

In order to fulfil the Recommendations set by the EU Council as part of the European Semester, the new Fiscal Responsibility Act has been developed to fully harmonise fiscal rules with the provisions of the Stability and Growth Pact and strengthen independence and expand the jurisdiction of the Commission on Fiscal Policy. The new Fiscal Responsibility Act will prescribe numerical fiscal rules, i.e. structural budget balance rule, expenditure rule and public debt rule, as well as the rule on the amount of deficit for state budget projections. We will also define the obligation to adhere to the Recommendations of the EU Council during the excessive budget deficit procedure with the aim of solving excessive budget deficit and public debt, as well as procedures in cases when the Government of the Republic of Croatia or the Commission on Fiscal Policy find significant deviations from the fiscal rules defined under the Act. Furthermore, this Act strengthens the independence of the Commission on Fiscal Policy, which is defined as a permanent and independent state body. In order to emphasise the independence of the Commission, the Act stipulates that the President of the Commission shall perform his obligations as President full time and subject to general rules of employment. The Commission shall also employ civil servants to perform professional, administrative and technical tasks. The Commission has thus been given a stronger supervisory role regarding the application of the Fiscal Responsibility Act and the implementation of the entire state fiscal policy with the aim of improving the public finances system. Objective and transparent macro-fiscal projections and monitoring of fiscal rules will contribute to overall sustainability of public finances.

Amendments to the Budget Act will be implemented during 2017 in order to improve the medium-term budget framework and comply with the provisions of Council Directive 2011/85, which is also one of the recommendations given for the Republic of Croatia in the Report. The Budget Act defines key documents of the budget planning cycle that include Economic and Fiscal Policy Guidelines. Amendments to the Budget Act will broaden the content of said Guidelines which will now cover multi-year budget objectives expressed in general budget deficit/surplus indicators, public debt and revenue/expenditures of the general budget, as well as projections according to type of revenue and expenditure of the general budget based on fiscal impact of unchanged laws, other regulations and planning acts, and the description of foreseen changes in legal and other regulations with fiscal impact in the medium-term budgetary period. The importance of the realism of macroeconomic and fiscal projections, as well as the necessity to explain their significant deviation from EC projections will also be highlighted. The aforementioned Act will also prescribe the obligation to disclose information on potential liabilities with significant budgetary implications, as well as the obligation to define the content, time periods, scope and method of disclosing information on the effects of tax expenditures on revenue.

Likewise, the Government of the Republic of Croatia will establish a method of monitoring and publishing fiscal data for the general budget according to ESA 2010 methodology. Implementation of preparatory actions and creation of binding tables for conversion of records of business events according to the rules of entrepreneurial accounting in the budgetary accounting for certain extra-budgetary users will also be performed in this context. Amendments to this Act also foresee further improvement of the strategic planning process. The implementation of this measure will result in improved budget planning, improved fiscal statistics and improved expenditure control, which will contribute to the reduction of the budget deficit.

## **Improving the public debt management**

Institutional and administrative capacities should adequately monitor public debt management objectives defined in the Public Debt Management Strategy 2017-2019 adopted in January 2017. According to the current Regulation on the internal organisation of the MF, public debt management





tasks are within the scope of the Public Debt Management Sector as an organisational unit within the State Treasury. Organising management activities in this sector has to be done by changing the internal structure of the MF. The institutional capacity of the newly established Public Debt Administration will be strengthened through further employment, as well as effective reallocation of existing human resources within the state administration system.

### **Ensuring stricter implementation of the recommendations of the state audit**

Stricter implementation of the recommendations of the state audit will be ensured in order to achieve a lawful, dedicated and purposeful use of budgetary resources, as well as an efficient and effective functioning of the internal control system. Legislative framework will be modified in parts related to sanctioning non-compliance with the recommendations of the State Audit Office (SAO) in order to increase public debt sustainability and strengthen the management of public finances. According to the SAO Report for 2016, as much as 27.9% of orders and recommendations given by the SAO were not carried out (29.2% in 2015). Various models for sanctioning non-compliance with SAO orders and recommendations were considered in 2015 and 2016. Many years of the SAO Act<sup>55</sup> have identified certain shortcomings in its application as well as possible improvements so an entirely new Act will be drafted for adoption.

The proposed Act aims to: introduce sanctioning of audited entities and persons responsible for non-compliance with issued orders and recommendations and failure to report within the prescribed deadline; clearly determine entities subject to auditing and activities performed within the audit process; extend the deadline for submitting a report on the audit of the annual report on the execution of the state budget; introduce the possibility of employing special experts as external associates to address specific issues; clarify employee obligations under the SAO in greater detail.

### **Further development of the unified public procurement system**

In the next period, the development of a unified public procurement system will continue in the sense of expanding the number of institutions for which a joint procurement process is being implemented through SOCPP. Procurement of postal services, procurement of electricity and procurement of electronic communication services in mobile network and equipment for using these services is planned for a specific number of users, as well as the adoption of the Decision of the Government of the Republic of Croatia on expanding the number of users of central public procurement from approx. 570 to all users of public procurement that are also budget beneficiaries.

### **Increasing the efficiency of the implementation of the grant scheme under ESIF operational programmes**

In order to improve business processes related to the implementation of the grant scheme we will simplify and accelerate the grant process as the current complex and long-lasting procedures have a negative impact on applicants and recipients of grants, as well as on the management and control system, and the absorption of ESIFs. Increasing the number of grant procedures with a maximum of 3 phases in the total number of published calls in 2017 is expected to encourage the acceleration of grant procedures, i.e. conclusion of grant agreements.

In order to meet the E-Cohesion requirement, which requires from Member States to exchange all information between users and public bodies via an electronic data exchange system, the Ministry of Regional Development and EU Funds (MRDEUF) has initiated the development of the e-Funds system. Besides accelerating absorption, this system will also ensure easier control over the flow of

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<sup>5555</sup> OG, No. 80/11





resources, higher quality audit trail, as well as monitoring and evaluating results achieved through the use of ESIFs.

The use of ESIFs resources and funds represents a large administrative burden for the applicant/user and bodies within the system which is why it is necessary to enable detection and prevention of irregularities and double funding. Development of applications, primarily in the user portal section, will provide a digital communication service to users with regard to exchange of electronic documents, and the further improvement of the application component primarily intended for the Management and Control System (MCS) bodies will decrease the administrative burden placed on applicants and users, but also MCS bodies. The implementation of these activities will provide a comprehensive IT solution, enable electronic application and implementation of projects funded from EU funds, and improve the functionality of control and evaluation of results.

Grant procedure has displayed shortcomings in terms of insufficient elaboration of guidelines for applicants, the need for better, clearer and more concise requirements for applicants, and requested documents that represent an unnecessary administrative burden on applicants, but which do not increase the quality of project proposals. The implementation of this measure will also help harmonise activities of various bodies within the ESIF management and control system.

In line with past experiences (over 200 complaints have been resolved from September 2015 to March 2017, approximately 37% of which have been returned to the re-allocation process), we expect that an additional number of excluded project proposals will be reviewed again by the competent authority acting upon the decision of the Managing Authority. Regarding the management of irregularities, timely and appropriate identifying and detecting of irregularities, and by correctly determining the financial correction, a number of system errors will be prevented when determining irregularities.

Amendments to the Civil Servants Act will provide for a faster and simpler procedure for recruiting civil servants working on tasks related to ESIF and reduce the cost of this procedure. The existing recruitment procedure is complicated and time-consuming which is why a suggestion will be made not to include ESIF related tasks in the civil service employment plan. In addition, we plan to accelerate the procedure before the announcement of a public tender (it will not be necessary to check whether there any civil servants available to the Government of the Republic of Croatia eligible for performing required job-related tasks nor review their competencies).

We will simplify the process of reviewing applications and inviting applicants for testing. The decision on the recruitment to the civil service will be delivered to the candidates by public announcement on the website of the state body which issued the public tender and on the MPA's website, which will speed up the delivery process and the execution of the decision. Also, the same amendments suggest that persons may be recruited to civil service for a specific period of time which is the duration of projects funded from EU funds. Until now, this period could not be longer than one year. Amendments to the Act also stipulate an urgent complaint procedure.

The lack of administrative capacities identified by analysing the workload of the tendering procedure which is shorter and simpler than the existing procedure will be offset within a shorter timeframe. Audit reports created by the Agency for the Audit of European Union Programmes Implementation System (ARPA) as the auditing body, as well as auditors from competent EC services, emphasise the need for strengthening bodies' capacities in ESIF management and control systems, especially considering the multiple increase in the amount of ESIF funds available to the Republic of Croatia in the programming period 2014-2020. Reviewing the need for additional number of employees tasked with management and control of ESIFs in the Republic of Croatia has shown that in 2017, approximately 700 officials are needed in the service. In order to accelerate the absorption of



resources, it is necessary to speed up the performance of tasks by system bodies, and one of the mechanisms to achieve this is to employ additional employees.

Limited number of projects ready to receive EU funding, sluggish progress and delays in project preparation and implementation, as well as prolonged administrative procedures for approving acts/licenses, negatively impact the scope of utilisation of ESIF funds which is why plans have been made to establish a technical assistance mechanism aimed at supporting the preparation of investment projects with the potential to apply for EU funds through advisory and technical services provided with regard to the identification, prioritisation, design, structuring and implementation of investment projects using international financial institutions. All of the aforementioned should result in a simplified and improved project preparation and implementation procedure, i.e. additional professional assistance provided to project promoters and management bodies for the development of economically and technically viable projects, and better exploitation of ESIFs and other EU funds and co-financing instruments.

#### **4.3.2. Reduction of healthcare arrears and sustainability of the healthcare system**

##### **Functional integration of hospitals**

National Healthcare Strategy 2012-2020<sup>56</sup> is the main strategic document of the entire healthcare system. National plan for the development of clinical hospital centres, clinical hospitals, clinics and general hospitals in the Republic of Croatia 2015-2016 was developed and adopted based on this Strategy and prescribes the rationalisation of the hospital system since hospitals operate with constant loss over a longer period of time and generate arrears to suppliers, and also shows that the existing method of financing the healthcare system is unsustainable and illiquid and that there are serious difficulties in performing everyday operations. Due to the fact that the National plan was valid only until the end of 2016, we will adopt the National plan for the development of clinical hospital centres, clinical hospitals, clinics and general hospitals in the Republic of Croatia 2017-2020 in order to ensure better public health services and achieve long-term financial and operational sustainability of hospitals.

National plan for the development of clinical hospital centres, clinical hospitals, clinics and general hospitals in the Republic of Croatia 2017-2020 will define a continuation of activities initiated under the National plan 2015-2016 regarding the functional integration principle which implies collaboration and integration of hospitals through restructuring in order to achieve better quality of health services, treatment outcomes, satisfaction of users and healthcare providers, as well as a long-term system cost rationalisation. Hospitals will retain four basic activities (internal medicine, surgery, paediatrics, and gynaecology and obstetrics), and other activities will be performed under the functional integration model with the aim of ensuring accessible and quality healthcare.

Improved access to hospital healthcare will be achieved by increasing day-care and one-day surgery capacities, functional integration of hospitals, i.e. linking hospital activities, as well as increasing the number of healthcare services provided through specialist-consultative healthcare, day-care and acute, chronic and palliative care bedding. A pilot project will be initiated regarding a functional merger of the Šibenik-Knin County General Hospital with the General and Veteran Hospital "Croatian Pride" from Knin, as well as the Karlovac General Hospital with the General Hospital and Hospital of the Homeland War Veterans in Ogulin. Achieving the aforementioned should result in improved quality of healthcare; greater availability of healthcare services; rational use of all resources of the hospital healthcare system (staff, equipment, space), due to the fact that concentrating medical staff and

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<sup>56</sup> OG, No. 116/12



equipment in one location increases the effectiveness of provided healthcare and reduces waiting lists.

### **Increasing the efficiency and quality of healthcare services**

National Healthcare Strategy 2012-2020 prescribes rationalisation of acute hospital healthcare by increasing the capacity and number of day-care hospital services and one-day surgeries. The aforementioned hospital system reform measure ensures better access to hospital healthcare and improves the quality of provided hospital health services. Optimal development of day-care hospitals also requires structural changes on hospital buildings that would place healthcare workers closer to the patient or place the patient in the centre of the system. Due to the fact that significant financial resources have to be allocated under the Operational Programme Competitiveness and Cohesion 2014-2020 for the implementation of said measure, a limited call for proposals entitled “Improving profitability and access to day-care hospitals and/or daily surgery” has been announced. Total available grants amount to HRK 725.5 million.

EU funds will provide construction and adaptation, equipping and putting into function of day-care hospitals/one day surgeries and unified emergency hospital admissions. This will increase the quality and effectiveness of services, and a greater number of patients are taken care of. The purpose is to increase the profitability and sustainability of the healthcare system in the Republic of Croatia by improving the efficiency and access to day-care hospitals and one-day surgeries by reducing the number of admissions to acute hospital departments by at least 10%.

By increasing the use of day-care hospital modality and reducing acute hospital capacities, availability of hospital healthcare will not decrease, instead a significant number of standard procedures is transferred to day-care hospitals. Modern, cost-effective and multidisciplinary treatment methods will be provided in day-care hospitals, which will significantly improve the quality of healthcare. Day-care hospitals would treat most of the health problems affecting the population, including minor surgical interventions. The ultimate objective is to reduce the overall need for hospital capacities and shorten the waiting lists where they exist.

Taking into consideration the statistical data which shows that 20% of patients fail to attend scheduled examinations, and in order to reduce the waiting time for examinations, priority checklists will be created (within two weeks of diagnosis for patients with absolute clinical indication) and the procedure for scheduling and responding to patients via SMS will be simplified. Should a patient be scheduled for diagnostic testing performed in a hospital environment, he will receive an SMS message fifteen days and five days before the scheduled test (reminder). He will be able to respond to such a message with a cancellation request if he has already completed the test. This will free up appointment slots to other patients waiting to do the same examination or test and reduce waiting lists. The aim is to increase the quality of healthcare services, reduce waiting times, decrease duplicate scheduling and duplicate overlapping procedures, and can ultimately result in total savings of approx. HRK 5 million.

Hospital system rationalisation measures include activities related to increasing incomes and decreasing hospital expenditures. Since most hospitals operate with a constant loss over a span of several years and generate arrears, and healthcare workers' expenditures represent a significant operating cost, it is necessary to increase control over costs, especially staff expenditures, and establish a viable and liquid healthcare financing system. The measure of controlling healthcare workers' expenditures in hospitals includes the collection of targeted data to gain insight into employee costs. Activities are planned within the scope of this measure that include reviewing on-call and stand-by times, introducing shifts in hospitals or activities, where considered optimal,



redeploying workers within the healthcare facility according to available options, equalisation of coefficients (for all public healthcare institutions), and monitoring workers' performance. The purpose of this is to improve management of human resources, reorganise hospitals using new systematisation of jobs, control employment, i.e. reduce the number of employees through retirement/termination of employment, except in exceptional cases, while preserving the quality of healthcare. The objective is to reduce unnecessary expenditures and improve the management system, which will lead to cost reductions and growth of efficiency, consequently achieving financial stability of the hospital healthcare system.

Achieving additional revenue in hospitals is one of the prerequisites for establishing a financially viable system. This measure encompasses an enhanced billing system, improved billing process for self-paying patients, introducing additional healthcare cost calculation controls prior to sending hospital bills to self-paying patients. Furthermore, increased revenue can be achieved by providing additional healthcare services outside the compulsory health insurance, including higher rates for better accommodation (apartments), increasing the scope of leasing free premises for out-of-service activities, as well as selling hospital properties which are no longer used. The goal is to increase hospital revenue outside the agreement with the Croatian Institute for Health Insurance and establish a financially stable healthcare system.

Healthcare funding is crucial to the functioning of the healthcare system in order to ensure a certain standard of health services and scope of healthcare protection. Participation in the cost of treatment of patients who are beneficiaries of compulsory health insurance and are not exempted from participating in the cost of treatment is regulated by the Compulsory Health Insurance Act.<sup>57</sup> Most hospitals in the Republic of Croatia do not have a well-developed system for collection of receivables from patients who do not have supplementary health insurance for hospital health services. The objective is to improve the collection of receivables from patients who do not have supplementary health insurance for hospital health services and reduce unnecessary expenditures in order to achieve financial stability of the healthcare system. Better financial supervision will therefore contribute to a greater level of financial discipline. Improving the system of compulsory participation in the cost of healthcare will be implemented in such a way that hospitals will be obliged to charge said participation cost when providing healthcare services. Founders will implement increased control of the aforementioned by submitting regular monthly reports on financial results based on paid participation costs, according to which appropriate actions will be taken.

### **Development and implementation of human resource management policy in healthcare**

Healthcare providers in the Republic of Croatia are physicians whose number is currently not sufficient to cover the needs of the Croatian healthcare system. Activities have to be implemented which would ensure quicker and easier obtaining of specialisations and measures have to be drafted which would stimulate young physicians to stay in the Republic of Croatia. It has been established that a greater number of approved specialisations can help tackle the issue of deficient number of physicians. Physicians and other healthcare workers have a legal and professional obligation to continually improve their profession. Therefore, one of the measures aimed at the retention of healthcare workers is to provide sufficient financial resources for continued professional training and education. In that sense, the withdrawal of EU funds required for the continued professional training and education of physicians will significantly affect job performance and satisfaction of healthcare workers and consequently reduce their outflow across the borders of the Republic of Croatia. Increasing the number of educated healthcare workers will directly affect the quality of healthcare services in the Croatian healthcare system. Financing specialist training of medical doctors in Primary Healthcare (PHC) and providing ongoing training of healthcare workers with resources taken from EU

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<sup>57</sup> OG No. 80/13 and 137/13



Funds will save approx. HRK 10 million. The purpose is to increase the number of satisfied healthcare workers, especially physicians as they are currently present in deficient numbers, with the aim of ensuring a sufficient number of healthcare workers for providing affordable and quality healthcare to the population of the Republic of Croatia.

### **Rationalisation and reorganisation of non-medical services in hospitals**

Numerous activities have been initiated under the previous NRP regarding the rationalisation and reorganisation of non-healthcare services in hospitals. Preliminary analysis of costs of non-healthcare services, i.e. security services, laundry services, non-medical surface cleaning services, administrative and financial services, and technical services, was carried out across all hospitals. The data are supplemented by cost analysis prepared by the MF. Reorganisation of non-healthcare services for rationalisation purposes is planned for 2017, with the final plan being the reduction of unnecessary expenditures and achieving financial stability of the healthcare system. Savings in the amount of approx. HRK 40 million should be achieved annually.

For the purpose of aligning expenditures across hospitals, we plan to adopt the Croatian National Standard for washing and laundry services in hospital health institutions in the Republic of Croatia. Guidelines for preventive maintenance of non-medical equipment at the institution level will also be adopted by developing an action plan for the implementation of non-healthcare activities.

### **Further implementation of stricter control of medicines, unified public procurement and computerisation of the system**

In order to reduce the cost of medicines and reduce total costs for all medicines listed on the basic and supplemental lists of the Croatian Institute for Health Insurance, we will consistently apply all mandatory provisions and the Ordinance on measures and methods for determining wholesale prices of medicines and the method of reporting on wholesale prices. This includes the implementation of the Annual calculation of prices for all medicines included in the basic and supplementary lists of the CIHI. The procedure for conducting a public bid to determine the price of medicines is stipulated by the provisions of said Ordinance. This public bid is implemented when there are identical medicines with varying prices in the list of medicines and there is a need to determine a reference price to be paid by the CIHI. Internal referral is only made for prescribed prescription medicine in accordance with the provisions of the Ordinance. Both procedures can yield significant savings depending on the price difference between identical medicines on the list when a public bid is implemented, i.e. the difference in the cost of medicines compared to the reference prices in the Republic of Croatia.

Further implementation of the unified public procurement will include the unified procurement of generic, innovative and expensive medicines, as well as the intensive application of the unified public procurement model in order to achieve system rationalisation. Further implementation of the unified public procurement of consumable and embedded materials and medical equipment is planned to achieve additional savings. By implementing this activity we can achieve financial stability of the healthcare system and reduce unnecessary expenditures by approx. HRK 100 million annually.

In terms of system computerisation, HealthNet guarantees a consistent quality of communication services across all healthcare institutions, multiplies the communication capacity of all healthcare institutions (from 2-10 Mbps to 50 Mbps-1 Gbps on average), ensures access to all healthcare services for healthcare institutions, increases the quality and control over the performance of healthcare services and achieves significant savings with regard to communication costs of healthcare institutions in the Republic of Croatia. In 2015, 200 physical locations were connected to the joint public healthcare infrastructure, with a total of 262 healthcare institutions and CIHI offices (87 hospitals and clinics, 31 health centres, 56 emergency medicine centres, 11 CIPH branch offices,



74 CIHI branch offices, and 3 CITM sites). Implementation of HealthNet reduced costs by approx. HRK 7 million and increased speeds from 256kbps-6Mbps to 50Mbps-1Gbps. By connecting all existing sites we will achieve annual savings of approx. HRK 15 million. We currently have 266 out of 749 sites connected, as well as 374 out of 1098 institutions. The plan is to connect additional 450 sites and 500 institutions, with estimated savings of approx. HRK 10 million.

### **Improving primary healthcare and palliative care**

There are significant differences in the availability of primary healthcare across the Republic of Croatia due to insufficient availability of medical equipment and human resources in family medicine, emergency medicine, paediatrics, gynaecology and radiology and the lack of a comprehensive and controlled system for continued professional training of general/family medicine practitioners, partly due to organisational complexity, but mostly due to the lack of a stable financing system. There are approx. 2,350 general/family medicine physicians working in the Republic of Croatia, and according to data from the Croatian Medical Chamber, approx. 50% of these physicians aren't specialised in family medicine.

Therefore, we must improve access to the PHC, especially in less attractive, rural and underdeveloped areas, by providing a sufficient number of physicians with specialisations in specific medical areas that have proved to be deficient, as well as necessary medical equipment. This will reduce the referral of patients by primary healthcare providers to higher levels in hospitals, ensure access to quality healthcare and increase the effectiveness of providing primary healthcare services. These activities will be implemented under the Operational Programmes Competitiveness and Cohesion 2014-2020 and Effective Human Resources 2014-2020. A Limited Call for submission of project proposals for grants was published under title "Improving the access to PHC with emphasis on remote and deprived areas by investing in the needs of primary healthcare providers" aimed at equipment and smaller structural and civil works. A Call for financing specialist training is currently being prepared and will be published shortly. Eligible counties as equipment beneficiaries (18 of them - regions of I and II group by development index and islands) have a total of HRK 171.8 million at their disposal for this purpose, with 8 counties currently awaiting approval. A comprehensive and controlled continuous professional training of general practitioners/family medicine practitioners will be provided in cooperation with the Croatian Medical Chamber, with the aim of increasing the knowledge and skills of general/family medicine practitioners.

Greater availability and quality of healthcare services, more efficient and rational use of health resources and unburdening of the Secondary Healthcare (SHC) and the hospital healthcare system are the primary objectives. These activities will reduce the number of referrals of PHC providers to hospitals by 15%, as PHC will provide a greater number of diagnostic and therapeutic procedures.

Development is currently under way of the Strategic development plan of palliative healthcare for 2017, together with the establishment of outpatient palliative healthcare system in accordance with the Croatian network of public health institutes.

### **Increasing the number of supplementary health insurance beneficiaries**

In 2016, there were 1,705,412 supplementary health insurance policies concluded with insurance beneficiaries who pay their own policies. Compared to 2015, this amounts to 5.03% more paid policies. The objective is to increase the number of insurance beneficiaries who pay a premium for supplementary health insurance policy in 2017. An increase of 3% in 2017 would mean additional 51,162 insurance policies, or a total of 1,756,574 insurance policies, which, when compared with the total number of policies contracted in 2016 (2,580,914) represents a share of 1.98%.





By monitoring the supplementary health insurance market, we have noted that competing insurance companies have invested significant resources in promotional activities for the purpose of attracting potential new insurance beneficiaries. We have also noticed that they have not focused their marketing efforts on uninsured persons, instead they target persons insured by the CIHI, and above all - younger people. In order to stop these trends and achieve the aforementioned objective, i.e. attract as many insurance beneficiaries as possible who are paying supplementary health insurance policies, especially among the working-age younger population, CIHI plans to continuously invest in promotional activities in 2017 that include advertising campaigns on all major media outlets (television, radio, internet, etc.) and communicate the benefits and features of supplementary health insurance.

In addition, CIHI plans to support and participate in all major public health events held on a national level in 2017 in order to better educate citizens and raise awareness of the importance of supplementary health insurance as part of overall healthcare. In order to improve communication and comply with wants and needs of insurance beneficiaries, CIHI is planning to continue organising workshops for employees in regional offices and branch services working with supplementary health insurance, as well as communicate with insurance beneficiaries on a daily basis in 2017. Carrying out these activities and communicating with insurance beneficiaries is necessary to attract new people into the supplementary health insurance system, retain existing beneficiaries and maintain the stability of the supplementary health insurance system and CIHI as a whole.

#### **4.3.3. Improving the efficiency of the social benefits system**

##### **Demographic policy and stimulation of demographic renewal**

The Government of the Republic of Croatia defined the demographic renewal and population policy measures as the basis for economic, regional, rural and total growth and development in their Programme for the period 2016-2020. In this context, population policy measures directed at increasing birth rates will be implemented, ensuring a minimum and raising the existing living standard, as well as measures for providing family housing assistance. Population policy measures will be implemented with the ultimate objective of increasing birth rate, balancing the age structure and maintaining the spatial balance of the population in the direction of increasing the share of the younger population.

One of these family and population policy measures is aimed at increasing the material rights of parents for the purpose of combating the unfavourable demographic situation. Amendments to the Act on Maternity and Parental Benefits<sup>58</sup> will increase the amounts and limits of cash benefits granted under this Act. This will improve the standard of employed and self-employed parents, as well as low-income parents or unemployed parents.

##### **Standardisation of criteria for certain social benefits**

Review of the existing social benefits system has been under way for the last couple of years with the aim of increasing its efficiency, transparency and fairness, as well as ensuring its sustainability. Since the family is a prerequisite for any demographic development, family policy will be primarily used to empower the family and implement policies that will help to reconcile work and family life. This is why social benefits for families and children are exempt from further consideration regarding the introduction of property census. Social benefits intended for persons in poverty and socially excluded persons should retain the principle of solidarity and their protective functions. Because they are well-

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<sup>58</sup> OG, No. 85/08, 110/08, 34/11, 54/13 and 152/14





targeted, consolidation of social benefits should focus on their efficiency, adequacy and better coverage of most vulnerable citizens.

Analysis of the social protection system, social benefits and social programs on a central government level and social benefits on the ULRSg level was carried out in 2015 and 2016 under the “Social Synergy System” project which is part of the EU programme for employment and social solidarity - PROGRESS 2007-2013. The report “Structure of Fees, Expenditures and Beneficiaries of the Social Protection Program in the Republic of Croatia” was created on the basis of this analysis which showed that social expenditures of ULRSgs are to a large extent complementary to central government programme expenditures, i.e. that ULRSgs are financing programs that are not being financed or are insufficiently financed on the central level or provide benefits beyond the guaranteed legal standard, which is fairly low for some social groups. This report also counted 132 social protection programmes at the central government level, 64 of which were monetary benefits, 50 included direct provision of goods and services, and 18 were subsidies for goods and services. In addition to social benefits, the project also included 32 tax reliefs (17 social security contributions reliefs, 12 income tax reliefs, 1 corporate tax relief, and 2 real estate sales tax relief). In addition to this, we must re-examine privileges granted to certain groups in society on the basis of their special status (illness or disability), for the purpose of gaining a comprehensive insight into central government social programmes.

Based on the aforementioned analysis, approximately 2,680 social benefits or social protection programmes were identified on the ULRSg level. The analysis, however, shows that these programmes can be reduced to only a few dozen categories due to the fact that many ULRSgs have the same benefits and programmes under different names which are intended for the same groups of people or serve the same function. This is why we must introduce standardisation and harmonisation with the European System of Integrated Social Protection Statistics (ESSPROS) methodology. This will facilitate collection and, at a later stage, exchange of programme data and social protection beneficiaries between national and local and regional levels.

One of the basic preconditions for a simpler, more harmonised and transparent social benefit system is to improve the legislative framework governing the area of social benefits. In order to achieve this we must first conduct the standardisation of criteria for exercising various rights, align definitions of certain terms (income, household, degree of impairment, etc.), clearly define revenue that is (not) included in income for the purpose of determining social benefits, as well as re-examine the property census system.

One of these family and population policy measures is aimed at increasing the material rights of parents for the purpose of combating the unfavourable demographic situation. The ultimate objective of this measure is to ensure a fairer system of allocation of social benefits, better targeting of the most vulnerable groups of society and generally greater transparency of the social benefits system. Amendments to the Act on Maternity and Parental Benefit<sup>59</sup> will increase the amount and limits of cash benefits stipulated under this Act. This will improve the standard of employed and self-employed parents, as well as low-income parents or unemployed parents.

Existing business processes pertaining to social benefit in different SABs are not consistent. Due to this we must create a snapshot of business processes and propose changes for implementation. New or revised legal frameworks will be introduced in order to address existing difficulties in applying relevant provisions and to simplify procedures.

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<sup>59</sup> OG, No. 85/08, 110/08, 34/11, 54/13 and 152/14



Action Plan for the Consolidation of Social Benefits for the period 2017-2020 is a document that will define measures and activities listed in the NRP, but also provide a broader picture, given the timing of the implementation. All of the aforementioned will be focused on achieving a more effective and fairer social protection system, better targeting of benefits on vulnerable persons and greater coverage of people at risk of poverty and social exclusion, as well as reducing the fragmentation of the system by linking it at the national and local level. Measures will be grouped as follows: a) measures aimed at harmonising and simplifying the process, aligning the legislative framework, standardising criteria and terminology, ensuring greater coverage of beneficiaries and better targeting of benefits and programmes, adjusting the legislative framework with the purpose of achieving better application and raising the level of professional activities carried out by the social welfare centres; b) measures for facilitating greater transparency and effectiveness of the social protection system by improving the existing IT system used in the social welfare system through which data exchange with other systems is achieved, simplification of business processes in the area of benefits and establishment of prerequisites for further data exchange with other systems; c) measures that contribute to improving the quality of life of citizens and reducing the administrative burden by establishing new e-services under the existing e-Citizens service. This Action Plan will define the competent authorities for implementing measures, activities, deadlines for implementation, financial effects and the method for monitoring the implementation of these activities.

The implementation of measures will result in a clearer and more transparent system of social benefits and legal compliance, with a greater adequacy of benefits and focus on most vulnerable beneficiaries.

### **Integration of social benefits management**

Coordination and exchange of data on the use of rights from the social welfare system with other systems will be established in order to simplify procedures, ensure better accessibility, establish better supervision of social protection benefits and transparency of payments.

The SocSkrb system is currently used to exchange data related to the process of exercising social welfare rights. For the purpose of providing preconditions for the establishment of data exchange on social benefits with other systems, various activities will be undertaken for the purpose of upgrading and improving the functionalities of the SocSkrb IT system. Data on benefits from other systems (MDFYSP, CIHI, CES, CPII) have to be defined for analysis purposes and creating proposals for future changes, functionalities will be improved to simplify business processes for exercising benefits rights in the area of social welfare and create services for the exchange of predefined data.

In order to ensure transparent spending of social protection resources and collect data for the purpose of analysing the effectiveness of the overall social protection system with the aim of its continuous improvement, it is necessary to regularly collect data on social protection programs and expenditures of ULRSs. After implementing standardised data collection in compliance with the ESSPROS methodology, data on ULRS social programs will be exchanged with the Ministry of Demographics, Family, Youth and Social Policy (MDFYSP).

### **Provision of e-services from the social welfare system**

The SocSkrb IT system contains detailed information on beneficiaries of the social welfare system. Information stored in the system represents a suitable base for e-services intended for beneficiaries and other citizens.



In addition to existing exchange of data with other systems with the basic link being the PIN (OIB) of citizens, functionalities will be improved to ensure the exchange of data from the social welfare system via the e-Citizen system, as well as the ability to apply for child allowance and maternity and parental support. Technical prerequisites for submission of requests for child allowance and maternity and parental support through the e-Citizens system will be provided for this purpose.

Development of e-services will provide citizens with an economical, simple and available access to social protection services, which will lead to the reduction of the administrative burden on public authorities and rationalise the time needed to be granted certain rights and services in the area of social protection.

#### **4.3.4. Ensuring the sustainability of the pension system**

##### **Encouraging a longer working life**

The Croatian pension system, and also public finances in this context, is in a very difficult situation with regard to sustainability, sharing last place within EU Member States with budget subsidies for pensions amounting to a little above 4.85% of the GDP.

Demographic changes and the current global economic situation heavily impacted the sustainability of pension systems in almost all EU Member States. Statistics show that the share of the population aged 65 and older in the total population of the Republic of Croatia has risen from 15.9%, according to the 2001 census, to 17.7% according to the 2011 census. Demographic estimates for 2030 reveal that the share of the population aged 65 and older in the total population is expected to be over 24%. Starting from data reflecting the situation in the I mandatory pension pillar, i.e. 1.23 million pension beneficiaries compared to 1.43 million insured persons (ratio of 1:1.16), it is apparent that the pension system is greatly burdened, as is the case in most European countries, because of the economic crisis and the rising unemployment issue. Expenditures for pensions and retirement benefits amounted to HRK 36.805 billion (10.7% of GDP) in 2016, with revenue from contributions amounting to HRK 20.229 billion (54% of pension expenditures), and 46% of pension expenditures being financed from the state budget.

The issue of fixing the pension system is not only related to the sustainability of the pension system, but also to determining adequate pension levels and combating poverty and social exclusion in old age. Large number of early retirement pension beneficiaries and disability pension beneficiaries, “early retirement penalties” below the EU average (Croatia 1.2-4.1%, EU 5%), small number of old-age pension beneficiaries with a pensionable service of 40 or more (14.87%), etc. All of these factors are implying that, in order to achieve and maintain social adequacy and financial sustainability of pensions, it is necessary to adopt legislative changes and link retirement age with life expectancy, discourage early retirement, encourage longer working life, strengthen employment opportunities according to remaining abilities, revise the “accelerated pensionable service” system, etc. Stable financial retirement age can be achieved through continuous implementation of measures that will have a positive impact on the labour market and employment, while simultaneously adjusting the pension system according to current and expected demographic and economic trends. Therefore, current unfavourable demographic conditions mean that proposed measures are primarily aimed at achieving the sustainability of the pension system, while the adequacy of pensions becomes a crucial challenge that most EU Member States have to face in order to ensure adequate income in old age.

Key measure for improving the effectiveness of the pension system involves encouraging a longer working life which can be achieved by discouraging early retirement, i.e. introducing a greater penalty for early retirement. Instead of current reductions that depend on the duration of pensionable service (starting factor for determining early retirement pension is 0.10% to 0.34% per



month of early retirement), we propose a single starting factor for each month before the insurance beneficiary is old enough to enter normal old-age retirement, irrespective of the years of pensionable service (for example, early retirement pension in Austria is decreased by 4.2% per year of early retirement, up to a maximum of 15%, in Slovenia this amount is 0.3% per month of early retirement, up to a maximum of 18%, in Germany this amount is 0.3% per month of early retirement, in Lithuania 0.4% per month, but the pension is recalculated once the retirement age is met).

Furthermore, encouraging a longer working life can also be achieved by speeding up the equalisation of minimum age required for early retirement and old-age retirement for men and women, and then gradually raising this age to 67 years for women and men. The minimum required age for old-age retirement in 9 EU countries increases in accordance with increased life expectancy (Czech Republic, Denmark, Greece, Italy, Cyprus, Hungary, the Netherlands, Portugal and Slovakia). By 2020, the retirement age will be higher than 65 in 11 EU countries (Denmark, Germany, Ireland, Greece, Spain, France, Italy, Netherlands, Poland, Portugal and the United Kingdom), although more stringent retirement conditions can be expected in the coming period due to the general aging of the EU population.

We also propose to modify retirement pension requirements for long-term insurance beneficiaries in relation to the current 60 years of age and 41 years of insurance; stricter requirements for this type of effective retirement age have to be introduced. Abolishment of “bonuses”, i.e. pension increments of 0.15% per month of later retirement (according to the valid provision, pension increases by 0.15% for each month after the insurance beneficiary is old enough to enter this retirement, and a maximum of five years) is also proposed.

By extending the circle of retirement pension beneficiaries that are still able to work, we will also include other retirees in the labour market to encourage older workers to work, enable them to gradually exit the labour market, and provide them with additional income in old age.

### **Improving the pensionable service system with extended duration**

The applicable Act on Pensionable Insurance with Extended Duration<sup>60</sup> defines jobs and occupations where pensionable insurance is calculated with extended duration (covering more than 25,250 workers), since these jobs are particularly difficult and have negative effects on the health and work ability of workers and, after certain years due to the nature and difficulty of such work, physiological functions of the human body decrease to such an extent that it prevents further successful performance of the work. Depending on the duration of periods for which pensionable insurance is calculated with extended duration and the degree of increase of pensionable insurance periods, the age limit for old-age pension is appropriately reduced. Occupational health and safety experts from the Croatian Institute for Health Protection and Safety at Work reviewed 100 jobs and occupations established by the Act, which included direct surveys of conditions at most jobs/occupations performed by experts and representatives of social partners. It has been determined that the introduction of new technologies, improvement of safety and other working conditions, and the application of general and special protection measures have made pensionable insurance with extended duration obsolete for specific jobs, and that the pensionable insurance with extended duration system needs to be revised and improved.

In accordance with the recommendations given by experts and following comprehensive consultation with social partners and interested public, amendments to the Act on Pensionable Insurance with Extended Duration will be made in the part establishing the number of jobs and occupations for which pensionable insurance is calculated with extended duration (more than half of these jobs and occupations will be eliminated or duration of extended time will be reduced) and the

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<sup>60</sup> OG, No. 71/99, 46/07, 41/08 and 61/11



age limit for old-age retirement will be redefined, depending on the effective duration of employment at the workplace/occupation for which pensionable insurance is calculated with increased duration. Following these changes, we expect a longer working life and a reduction of future retirements in these categories of insurance beneficiaries, as well as a reduction in the amount of contributions resulting from the abolition or reduction of benefits.

### **Establishing a uniformed methodology of expertise**

Analysis of the work performed by the uniformed expert body revealed low productivity and efficiency of business processes, which led to delays in the implementation of the expertise process. In addition to considering new business processes, a new Regulation on the methodology of expertise is currently being drafted which will simplify and expedite the expertise process, i.e. establish a uniformed methodology of expertise across all systems. Modified and simplified expertise procedure will enable timely realisation of rights in the social welfare system, pension insurance, healthcare, education, occupational rehabilitation and employment of persons with disabilities, protection of war and civilian war victims and other systems in which rights are exercised on the basis of findings and opinions given by expert bodies. This will significantly improve the protection of rights of vulnerable groups, as well as the quality of the expertise system in the Republic of Croatia.



## 5. Measures and progress towards Europe 2020 Strategy targets

The Europe 2020 Strategy is a ten-year EU Strategy for growth and employment. The Strategy was launched in 2010 to create conditions for a smart, sustainable and inclusive growth, and encompasses five major EU goals to be achieved by the end of 2020. These include employment, research and development, climate change and energy, education, and combating poverty and social exclusion.

Europe 2020 objectives are as follows:

1. Increase the employment rate for men and women between the ages of 20 and 64, including greater participation of youth, older workers and persons with lower education.
2. Improve the research and development environment, particularly with the goal of raising the level of combined public and private investments in the R&D sector by 3% of the GDP.
3. Reduce greenhouse gas emissions by 20% compared to 1990 levels; increase the share of renewable energy in final energy consumption to 20%; improve energy efficiency by 20%.
4. Improve the level of education, particularly by reducing the school drop-out rate to less than 10% and increasing the share of population aged 30-34 who have completed tertiary education to at least 40%.
5. Promote social inclusion, in particular through the reduction of poverty, in order to reduce the number of persons at risk of poverty and social exclusion by 20 million.

The table below shows the last available values for achieving the aforementioned objectives.

Table 4: Progress towards Europe 2020 Strategy targets

Indicators	EU target	RH target	Achieved values in RH					
			2008	2012	2013	2014	2015	2016
Employment rate of persons between 20 and 64 years of age %	75	65.2	64.9	58.1	57.2	59.2	60.5	63.0
R&D investments, share of GDP, %	3	1.4	0.88	0.75	0.82	0.79	0.85	
Reduction of greenhouse gas emissions compared to 1990, %	20 (30)	max increase of 11% in relation to 2005	95.1	79.1	76.1	73.4		
Increased share of renewable energy sources in gross total energy consumption, %	20	20	22.0	26.8	28.0	27.9	29.0	
Increase of energy efficiency, %*	20	20		12.32				
Primary energy consumption, TOE	/	11.15	9.1	8.3	8.0	7.7	8.0	
Final energy consumption, TOE	/	7.0	7.4	6.7	6.6	6.2	6.6	
School drop-out, %	10	4	4.4	5.1	4.5	2.7	2.8	2.8
Percentage of population with tertiary education 30-34 years of age, %	40	35	18.5	23.1	25.6	32.2	30.9	30.5
Persons at risk of poverty and social exclusion (share in total)	20 million less people at risk	150,000 less people at risk of	23.7	24.7	24.5	24.4		



population, %)	of poverty	poverty						
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\*Observed through primary and final energy consumption.

Note: Data for employment rate indicator in 2016 (63%) refers to the III. quarter of 2016. Data for 2015 and 2016 is not available for some indicators.

Source: Eurostat

Below is a review of the implementation of measures aimed at achieving the objectives of Europe 2020 Strategy. In addition, summary of new measures and activities is given in Annex 2.

## 5.1. Employment

### Promoting the employment of the young and the long-term unemployed

According to the latest Eurostat data, employment rate of population aged 20-64 increased from 62.1% in the third quarter of 2015 to 63.0% in the same quarter of 2016. At the same time, unemployment rate decreased from 15.5% to 10.9%. With regard to trends in the previous period, employment rate increased from 59.2% in 2014 to 60.5% in 2015, while the unemployment rate decreased from 17.3% to 16.3%.

Table 5: Active labour market policy measures implemented during 2016, with number of beneficiaries until 31 December 2016

Measure	Active beneficiaries at the beginning of 2016	Newly included up to 31 December 2016	Total number of beneficiaries during 2016	Active beneficiaries 31 December 2016
Employment and training grants	6,747	5,813	12,560	5,588
Self-employment grants	2,647	2,333	4,980	2,241
Education of unemployed persons	1,095	3,809	4,904	1,129
Public works	3,217	8,773	11,990	817
Vocational training without commencing employment	18,307	15,059	33,366	15,702
Grants for the preservation of jobs	1,008	1,920	2,928	1,413
<b>TOTAL</b>	<b>33,021</b>	<b>37,707</b>	<b>70,728</b>	<b>26,890</b>

Source: CES

In order to align active employment policy measures with the labour market and economic development, Ministry of Labour and Pension System (MLPS) started redefining active employment policy measures in line with external evaluation at the end of 2016. Evaluation has shown that active policy measures are effective, but further improvement steps need to be taken, such as: ensuring financial sustainability of measures, abolishing measures that are not being used, setting criteria for existing measures, and simplifying the overall administrative procedure for measure beneficiaries.

In September 2016, a Working Group was established with the task of redefining active employment policy measures and included representatives of ministries, social partners and civil society organisations. It was concluded that the revised measures should be focused towards groups which have difficulties with employability, with particular emphasis on long-term unemployed, young people and people with insufficient qualifications, which was taken into consideration when adopting a new package of measures.

New active employment policy measures are directed at those groups of unemployed who, for a number of reasons, are in a disadvantaged position on the labour market. The main objective of these measures is to increase employability of persons threatened with long-term unemployment, but also to encourage employers to recruit and open new jobs.





Active employment policy measures in 2017 include: employment grants, training grants, self-employment grants, education of the unemployed, on-job training, vocational training without employment, public works, job preservation grants and permanent seasonal worker. In particular, activation and education of young people and long-term unemployed will be encouraged, and targeted education will achieve better employability of the unemployed. This will ultimately lead to faster activation and inclusion of unemployed people into the working world.

In 2017, active employment policy measures will cover 55,000 persons.

Educational measures enable unemployed to acquire additional job-related competencies, thereby helping employers to further develop and plan business processes. Unemployed persons will be able to engage in more diverse education programmes, while taking into consideration individual needs of the unemployed person. In addition, the scope of professional training measures without further employment has been expanded to include those with secondary education with regard to jobs that will enable them to acquire new knowledge and skills according to their level of education. Through employment grants, employers will be provided with co-financing of salary cost of up to 75% for the person employed by using this measure. The amount of subsidies for self-employment has been increased to help the unemployed realise their entrepreneurial ideas. Furthermore, the measure aimed at public work will be implemented with the aim of stimulating unemployed persons to engage in socially-oriented jobs with the purpose of motivating them for further inclusion on the labour market.

## **5.2. Research and development**

### **Strengthening the national innovation system and innovation potential of the economy**

According to Eurostat data, share of investments in research, development and innovation in the GDP in the Republic of Croatia in 2015 amounted to 0.85%, which is a slight increase compared to 2014 when it was 0.79%. In order to continue the growth of investments, MSE continued with the implementation of the new R&D funding model in 2016, which was developed for the period 2013-2015 and focuses on the allocation of multi-annual funds from the state budget (total funds - HRK 50 million per year). In April 2016, the Croatian science foundation published a call for proposal regarding its Programme for encouraging research and development activities in the field of climate change (total funding - HRK 17 million) in cooperation with the Ministry of Environmental Protection and Energy (MEE).

Implementation of PoC, RAZUM, IRCRO and UTT programmes by HAMAG-BICRO continued in 2016. These projects are financed by the loan from the International Bank for Reconstruction and Development, within the framework of the Second Technological Development Project (STPII), within the competence of the MSE. The programmes provide funding for small and medium-sized enterprises and public science organisations and encourage commercialisation of research results, collaboration between the scientific community and the business sector and the establishment of knowledge-based enterprises.

Within the 6th cycle of the PoC programme - Checking the Concept, 62 projects were contracted in the amount of approx. EUR 2.5 million in 2016. Six projects were contracted in the amount of EUR 3.1 million under the RAZUM programme that finances the development of knowledge-based enterprises. The implementation of six projects in the amount of EUR 1.7 million was initiated under the IRCRO programme for encouraging cooperation between the business and scientific sectors. Based on the competition conducted in 2015 under the framework of the UTT programme that enables commercialisation of research projects of public scientific organisations, promotion of



academic entrepreneurship and the establishment of spin-off enterprises, 14 projects were contracted in 2016 in the amount of EUR 800,000.

The Act and Ordinance on the State Aid for Research and Development Projects will regulate the conditions for granting state aid for research and development projects in the horizontal aid category for R&D and innovation. State aid for R&D projects will be realised as a right to further reduced profit tax base for justified costs of research and development projects of taxpayers who are classified into the categories of underlying research, industrial research and experimental development. The goal is to increase private sector investments in research and development, and ultimately increase overall R&D investments, i.e. contribution to achieving the strategic goal of 1.4% of GDP by 2020. The new Act and Ordinance on the State Aid for Research and Development Projects will improve the measure implemented under The Scientific Activity and Higher Education Act<sup>61</sup> until 31 December 2014, in the sense that its revision affects the efficiency of granting state aid, increases the number of beneficiaries, tracking investment performance, and greater transparency.

By increasing investments in the development of new products and value added services, competitiveness on the global market and exports are also increased. This measure also recognises the unfavourable position of small and medium-sized enterprises on the market, as well as the great potential for cooperation between the scientific-research institutions and the economic sector, thus allowing greater intensity of aid for such projects. The availability of aid for R&D projects is extremely important because such projects imply large investments with uncertain results, but are crucial to creating value-added products and, consequently, new jobs.

Since this measure encourages investing during the first step in the innovation process (up to the development phase of a prototype or pilot facility), the impact of related aid will be seen only after some time has passed and by taking into account the effects of other support measures available to companies in order to round off the process from the development of an idea to successful entry into the market. According to TA data, beneficiaries of state aid for research and development projects realised a total of HRK 124 million in tax relief in 2014. These values can be therefore considered as a starting point for defining the impact of the Act on the State Aid for Research and Development Projects, i.e. the total amount of aid per annum in the period up to 2020. It should be taken into consideration that one of the goals of said measure stipulated by the new Act and Ordinance is the increase in the number of beneficiaries and, accordingly, a higher amount of aid is expected annually.

### **Improving the quality management system and financing of scientific organisations and fostering scientific excellence**

Within the OP “Effective Human Resources 2014-2020”, one of the main funding priorities is defined in thematic objective 10. Specific objective 10.2.3. Improvement of the conditions for Croatian researchers; project Increasing Access to Electronic Sources of Scientific and Technical Information - E-sources launched in November 2016 (total funding of HRK 133.7 million). This will provide access to key international scientific databases and scientific journals in electronic format for university libraries and libraries of scientific and higher education institutions in the Republic of Croatia. One of the main priorities for funding under the Operational Programme Competitiveness and Cohesion 2014-2020 are the projects implemented by the national centres of excellence as a way of strengthening excellence in research, and the European Regional Development Fund (ERDF) published the related call in November 2016 (total funding - EUR 50 million).

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<sup>61</sup> OG, No. 123/03, 105/04, 174/04, 2/07 – Decision of the Constitutional Court of the Republic of Croatia, 46/07, 45/0., 63/11, 94/13 and 139/13)



### **5.3. Climate change and energy sustainability**

#### **Reducing greenhouse gas emissions**

Greenhouse gas emissions in terms of assessing the achievement of the objective are monitored on a yearly basis. Data available to the Republic of Croatia are contained in the Greenhouse Gas Emissions Inventory Report for the Republic of Croatia for 2016, covering the period from 1990 to 2014.

#### **Promoting energy efficiency and renewable energy sources in order to reduce greenhouse gas emissions**

The 2014-2020 Energy Renovation Programme for Residential Buildings is implemented through public tenders of the Environmental Protection and Energy Efficiency Fund (EPEEF), and 63 buildings were approved for co-financing under renewable energy projects in the amount of approximately HRK 50 million in 2016. Energy renovation projects for family houses based on the public call for proposals of the EPEEF published in 2015 in accordance with the Energy Renovation Programme for Family Houses were realised during 2016. The funds paid for the energy renovation of approximately 5,000 family houses amounted to HRK 265 million. Preliminary projections of energy savings and reduction of harmful emissions amounted to over 100 GWh, i.e. over 20,000 tCO<sub>2</sub>. The implementation of both programmes will continue in the 2017-2020 period with ERDF funds allocated under the Operational Programme Competitiveness and Cohesion 2014-2020, Priority Axis 4 - Promotion of Energy Efficiency and Renewable Energy Sources (Specific Objective 4c2) for which EUR 100 million has been allocated.

The promotion of energy efficiency in industrial production processes is carried out by co-financing projects selected through public tenders of the EPEEF with HRK 1.5 million of projects realised with participation of the EPEEF in 2016. Total energy savings of 3.2 GWh and emission reduction of over 1,000 tCO<sub>2</sub> were achieved. Incentive measures were implemented with regard to replacing the lighting systems in plants and introducing more efficient electromotor drive, as well as improving overall regulation by installing a frequency converter.

There is currently no National Centre for Excellence and Knowledge for Energy Efficiency and Renewable Energy in the Republic of Croatia that would support energy efficiency projects and the use of renewable energy sources within public administration. By establishing Bračak Energy Centre in a reconstructed facility under monument protection, a necessary structure has been established for the entire territory of the Republic of Croatia. This project, funded in the amount of HRK 24 million, has established a National Centre for Excellence and Knowledge for Energy Efficiency and Renewable Energy, as well as an entrepreneurial incubator for young and prospective energy companies. The energy centre is located in the Bračak castle which has been renovated as a low-energy building using modern construction technologies and will be heated using biomass. Realisation of said project and the establishment of the Energy Centre Bračak as a national centre of excellence and knowledge will stimulate the development of the national business infrastructure and strengthen the capacity of the public sector in order to implement the national energy efficiency policy and the use of renewable energy sources, encourage investment in energy and creation of the energy infrastructure, raise public awareness of all target groups on energy efficiency and renewable sources.

Under the State aid programme for the promotion of renewable energy production by 2020 a total of 1,289 renewable energy power plants were built by the end of October 2016 for the supply of electricity to the grid, with installed capacity of 641.116 MW. In the period between April and December 2016, MEE has issued 12 energy approvals for production plants or privileged producers of renewable energy sources: 1 wind power plant, 1 solar power plant, 2 hydro power plants, 5



cogeneration biomass plants and 3 cogeneration biogas plants. In the period between April and December 2016, 18 plants were put into permanent operation: 6 biogas plants, 1 cogeneration biomass plant, 3 small hydropower plants, 7 solar power plants and 1 cogeneration plant.

With regard to legislative measures, the Act on the Establishment of Infrastructure for Alternative Fuels<sup>62</sup> was adopted in December 2016. Under the Act, a Decision will be adopted on the National Policy Framework for the Establishment of Infrastructure and Market Development of Alternative Fuels in Transport which represents a document providing an overview of developing infrastructure for alternative fuels in transport and sets goals for the development of infrastructure and measures to encourage the development of alternative fuels markets.

Energy savings in 2012 amounted to 0.54 Mtoe or 24.22% of target values expressed in primary energy (0.38 Mtoe or 27.14% of the target in immediate consumption). Data on achieving energy efficiency targets for 2016, as well as implemented measures with estimated effects on saved energy and reduction of greenhouse gases, will be available in the Fourth National Action Plan 2017-2019.

Reporting on calculated emissions due to natural disasters from the total reported emissions is being improved for the purpose of reporting on greenhouse gas emissions/sediments in the Land Use, Land-Use Change and Forestry (LULUCF sector) sector. With this in mind, the EPEEF has contracted a project worth HRK 422,500 to determine the areas covered by natural disasters.

Projects stemming from public calls for direct co-financing of research and development activities in the field of climate change have been implemented by the EPEEF in 2015, including elements defined by the Sixth National Report of the Republic of Croatia under the United Nations Framework Convention on Climate Change<sup>63</sup> and the Plan for the air protection, protection of the ozone layer and climate change mitigation in the Republic of Croatia for the period from 2013 to 2017<sup>64</sup> in the amount of HRK 100,000.

The programme for encouraging research and development activities in the area of climate change for the period from 2015 to 2016 will be implemented through a public tender for applied and developmental research with up to HRK 17 million allocated for selected projects. Funds for implementation are provided by the EPEEF, and the tendering procedure is being conducted by the Croatian science foundation. The call was published in April 2016 as the first public bid to fund the applied climate change research in the Republic of Croatia, primarily with regard to mitigation and adaptation of the aforementioned, with the aim of encouraging research projects in the form of research consortia made up of a large number of researchers from different institutions that will take into account the involvement of young scientists and focus on innovative and applied research solutions. During the tendering period 37 applications were received and decision on the winning project is currently being discussed.

### **Transition to a circular economy**

Reducing greenhouse gas emissions and mitigating climate change is also facilitated by the transition to a circular economy, which is also a great opportunity for further sustainable development and economic growth. One of the key areas is waste and wastewater management. This is a precondition for a sustainable investment, i.e. a stable and predictable business environment. The EU seeks to achieve savings by using natural resources and emphasise the potential benefits of secondary raw materials in economic development, growth and creating new “green” jobs.

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<sup>62</sup> OG, No. 120/16

<sup>63</sup> OG, No. 18/14

<sup>64</sup> OG, No. 139/13



This was also highlighted in the EC Communication - Annual Growth Survey for 2017 (COM (2016) 725) where the importance of supporting the transition to low-carbon and circular economies to create new jobs in the field of innovative services and the production of new, sustainable products is highlighted. One of the areas in which a circular economy and greater resource efficiency have potentially significant macroeconomic importance is investing in waste management infrastructure and increasing the use of valuable waste materials. Moving to a circular economy involves a series of activities that help remove obstacles and ensure predictability for businesses, promote innovation and improve the investment environment, primarily by encouraging a reduction in waste generation, or increased recycling, to provide sufficient quantities of quality secondary raw materials.

The EC has calculated the potential savings of EUR 630 billion per year for the European industry which can be achieved by switching to the circular economy and using waste as raw material. For this reason, a number of waste directives are currently being amended with the aim of achieving waste recycling objectives and reducing waste disposal.

One of the highlighted measure is the introduction of a landfill tax whose application will efficiently encourage the diversification of waste from the landfill and separation of said waste at the production site, together with increased recycling, with the final goal being the performance of assumed obligations and the shift from a linear to a circular economy. It is an economic instrument that directly promotes waste management in accordance with the hierarchy, and the lack of which the EC has highlighted in its Report for Croatia as one of the main factors hindering the faster transition to a circular economy. Furthermore, the EC has made concrete recommendations for improving the situation in the field of environmental protection in the Republic of Croatia (COM (2017) 63), among which is the introduction of waste landfill taxation in order to put an end to the disposal of waste that can be recycled and recovered, and the use of revenue from economic instruments for supporting separate collection and alternative infrastructure.

In addition, the quantities of waste disposed of in the Republic of Croatia are considerably higher than the quantities specified in the EU Accession Treaty and the requirements stipulated in the Waste Framework Directive 2008/98/EC and which, if no major breakthroughs are made in the system, may be subject to monetary fines due to the violation of EU law. Furthermore, the Republic of Croatia has to ensure separate collection and recycling of at least 50% of its waste by 2020, with this number being at 18% in 2015. Therefore, the Waste Management Plan of the Republic of Croatia for the period 2017-2022<sup>65</sup> describes specific waste management objectives and measures and activities for the implementation of set objectives. HRK 45 million was spent on the construction of recycling yards and supply of communal equipment in the period from April to December 2016, while HRK 1.2 million was spent on preventing municipal waste generation.

## **Water management**

In the water management sector significant investments are constantly being made in water and communal infrastructure development and construction of buildings for the protection from damaging water impact in order to meet the requirements of the EU Accession Treaty, Chapter IV. Water Quality. The Republic of Croatia has allocated investments in the amount of EUR 1.2 million for ensuring compliance with relevant EU directives in the area of water management. An essential prerequisite for the efficient implementation of these investments is the comprehensive reform of the water and communal sector in the Republic of Croatia. Legislative and by-law proposals have already been prepared for the operational implementation of this reform.

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<sup>65</sup> OG, No. 3/17



## Increasing the share of renewable energy sources in gross total energy consumption

The measure involves the implementation of the National Action Plan for Renewable Energy by 2020. Quotas will be defined for encouraged production of electricity from renewable energy sources (RES) by technology. According to the aforementioned, frameworks will be created for further implementation of renewable energy sources, strengthening of sustainability criteria through new technologies, introducing market principles, increasing share of heating and cooling from RES, decarbonisation and energy diversification in transport.

Progress Report on renewable energy consumption and promotion in the period 2011-2014 states the following:

Table 6: Data on renewable energy consumption for the period 2011-2014

	2011	2012	2013	2014
<b>Sectoral and total shares and actual energy consumption from renewable energy sources (%):</b>				
<b>RES-heating and cooling</b>	33.7	36.5	37.2	36.2
<b>RES-electricity</b>	37.6	38.8	42.2	45.3
<b>RES-transport</b>	0.4	0.4	2.2	2.1
<b>Share of RES in each sector in direct energy consumption (ktoe):</b>				
<b>Gross direct consumption of RES for heating and cooling</b>	1235.4	1244.9	1237.0	1097.3
<b>Gross direct consumption of RES for electricity</b>	587.3	593.3	638.2	670.2
<b>Gross direct consumption of RES in transport</b>	8.1	8.0	39.6	37.6

Source: Progress Report on renewable energy consumption and promotion in the period 2011-2014.

## Increasing energy efficiency

The initial target of increasing energy efficiency has been changed in the Third National Action Plan 2014-2016 from 9.2 to 11.15 Mtoe expressed in primary energy (7.00 Mtoe in direct consumption). Targeted savings for 2020 are 2.23 Mtoe expressed in primary energy, (1.4 Mtoe expressed in direct consumption). Energy savings in 2012 amounted to 0.54 Mtoe or 24.22% of target values expressed in primary energy (0.38 Mtoe or 27.14% of the target in direct consumption). Data for 2016 will be available in the Fourth National Action Plan 2017-2019.

Increasing energy efficiency of buildings in order to reduce CO2 emissions and increasing the share of RES in direct energy consumption will be achieved by energy renewal of housing, public and commercial buildings. The National IT Energy Certification System will be introduced, which will enable the calculation of energy performance of buildings and drafting of energy certificates, which will lead to consolidation of required energy for heating and cooling buildings according to applicable standards. Adoption of the Energy Efficiency in Building Construction will facilitate the application of provisions and enable easier and faster modification and adaptation procedures in accordance with the EU Directive EPBD.

The National Energy Efficiency Action Plan for the period 2017-2019 includes 40 implementation measures for savings in primary and final energy consumption.

## 5.4. Education

### Reducing early school leaving rate

Early school leaving has always been at a low level in the Republic of Croatia (percentage of early school leaving in the Republic of Croatia - 5.1% in 2012, 4.5% in 2013, 2.7% in 2014, 2.8% in 2015),





while the Europe 2020 Strategy sets the target share at 10%. According to the above data, Republic of Croatia is at the very top of the EU in relation to other Member States, which is linked to the way the education system is established and a long tradition of inclusion in the education system. This is why no special measures were planned that would be aimed solely on early abandonment of education, instead when improving the system and during its development it is important to involve all students in accordance with their capabilities and abilities, and make the system accessible to students who would like to complete their initial education, which ultimately leads to employment. The Vocational Education and Training Development Programme 2016-2020 was adopted in July 2016, and its implementation will strive to increase the number of students in vocational education and harmonise learning outcomes in vocational education with labour market needs, as well as improve the adult education system and include them in lifelong learning.

### **Increasing the share of population aged 30 to 34 who completed tertiary education**

In order to improve access to higher education, MSE grants state scholarships to regular students studying at higher education institutions in the Republic of Croatia. For the school year 2016/2017, MSE announced a public scholarship grant in October 2016 at the beginning of the academic year, with payments starting after the adoption of the State Budget, so payments started in January 2017. In recent years, awarded scholarship were linked to the fiscal year, not the academic year, therefore scholarship payments were in April.

The number of scholarships for students with lower socio-economic status will be increased in the coming period from 5,000 to 10,000, and these would be financed by ESF funds. Scholarships for studying in STEM areas will be introduced (3,000 scholarships a year). It is planned to increase the capacity of student accommodation through the funds from the OP "Competitiveness and Cohesion 2014-2020", and by the end of 2018, 1,850 beds will be provided and paid from ERDF funds (HRK 438.18 million). Current capacity is 11,028 beds.

## **5.5. Reduction of poverty and social exclusion**

### **Providing humanitarian aid in kind and other support programmes to the most deprived**

The main reason for the implementation is a high rate of poverty risk and material deprivation in Croatia, which requires additional measures to help the most vulnerable, and which will be implemented through activities of providing assistance in the form of food (as a meal or food package) and/or basic material necessities (such as school supplies and equipment, hygiene products and other basic necessities) financed under the Fund for European Aid to the Most Deprived (FEAD).

Implementation activities focus on eight strategic areas: education and lifelong learning; employment and access to employment; housing and availability of energy; access to social benefits and services; access to the healthcare system; care for the elderly; fighting indebtedness and financial independence, and balanced regional development.

The poverty risk and social exclusion rate for 2015 amounted to 29.1%<sup>66</sup> or 1,246,000 persons (decrease of 0.2 pp compared to 2014). Starting from 2012 (32.3%), there is a constant decrease of risk regarding poverty and social exclusion.

Two tenders for awarding grants were implemented in 2016: Reducing poverty by providing help to the most deprived by provision of food and/or basic material aid in the total amount of HRK 86.4

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<sup>66</sup> Indicators of Poverty and Social Exclusion in 2015 - Final CBS Results.





million, and the Provision of school meals to children at risk of poverty in the total amount of HRK 13.6 million.

During 2017 we plan to provide school meals to children at risk of poverty in 586 primary schools in the amount of HRK 25 million. This project covers primary schools in counties whose national development index does not exceed 125% of the national development average (all counties except the Istria County, Primorje-Gorski Kotar County and the City of Zagreb). Poverty alleviation is planned by providing food and/or basic material aid to approx. 100,000 people, for which HRK 49 million has been allocated.

Contracted projects are aimed at alleviating the most serious forms of child poverty and poverty among other socially vulnerable persons by providing non-financial assistance.

#### **Development of quality foster care and even distribution of accommodation in foster families across the Republic of Croatia**

The Foster Care Development Plan for the period 2016-2017 has been created together with the analysis of children housing needs across all counties. Analysis data points to an insufficient number of foster parents and other targeted support programmes for foster parents, for which additional funding should be provided. The new Foster Care Act is currently being drafted and will provide the prerequisites for the development of a professional and specialised education programme for foster parents aimed at empowering them to face ever-increasing challenges in the field of foster care services.

#### **Establishment of a coordinated support system for groups at risk of poverty and social exclusion**

For the purpose of focusing the social care programme on persons and families at risk of poverty, the MDFYSP together with its French partners has implemented the twinning project "Strengthening the Institutional Capacities of the Social Welfare System to Improve the Opportunities/Routing of the Social Welfare Programme and Reducing Poverty". To this end, new poverty monitoring indicators will be established and database improved, which will enable early identification of families and children at risk of poverty. The objective is to develop at least two social programmes to help reduce the poverty of children and families, monitoring methodology and programme evaluation, as well as developing a programme for monitoring poverty. Together with these activities experts would receive relevant training in the use of all databases and information systems that will be developed under the project.

#### **Intensifying the process of deinstitutionalisation and transformation of social welfare homes**

In implementing deinstitutionalisation, it is important to ensure provision of services in the community, and to transform and improve existing services in the homes for users who continue to use the services of the institution. Tenders for awarding grants under the EFRR - Improvement of infrastructure for the provision of social services to children and young people in support of the deinstitutionalisation process (phase 1 - total value of HRK 71.4 million) was published in 2016, alongside the Improvement of infrastructure for the provision of social services in the community to disabled persons in support of the deinstitutionalisation process (phase 1 - total value of HRK 107.2 million) and Improvement of infrastructure of the social welfare centre in support of the deinstitutionalisation process (phase 1 - total value of HRK 73.1 million). Calls are permanent, and open until the end of 2019.

The plan is to apply 15 social welfare institutions during 2017, out of 31, together with five social welfare centres.



### **Financing of long-term civil organisations' programmes with the aim of developing and expanding the network of social services**

Implementation of the third year of three-year programmes continued in 2016 (from 1 June 2016 to 31 May 2017). The amount of HRK 30.2 million has been allocated for the implementation purposes from the available funds gained from games of chance in 2016, with HRK 22.7 million allocated to the 92 associations of persons with disabilities and HRK 7.5 million to 40 associations dealing with social and humanitarian activities. The third year is currently being negotiated. In March 2017, a call for applications for three-year programmes of civil society organisations was launched with the aim to develop and expand the community service network. Funding of approximately 130 programmes in the total amount of HRK 32 million a year is planned from the portion of revenue generated by games of chance.

### **Co-funding the Cost of Education for Students of Lower Socio-economic Status and Students With Disabilities**

The aim of the measure will be achieved by the education allowances prescribed by the Social Welfare Act, namely: by fees for regular study, fees for accommodation costs in students' homes and fees for transport costs. In 2016, 353 persons used these fees, for which HRK 4 million was spent.

In addition to the above, and in accordance with the Primary and Secondary Education Act<sup>67</sup> and implementing regulations, resources for customised transport of students with disabilities and resources for textbook customisation, as well as resources for recruiting teaching assistants and other measures will also be provided through the science and education system. In accordance with the Decision on criteria for financing increased costs of transportation and special teaching means and aids and co-financing meals for pupils with developmental disabilities in primary education programmes for 2016, the Decision on criteria for financing increased costs of transportation and special teaching means and aids for pupils with developmental disabilities in secondary education programmes in 2016 and Article 69, paragraph 4 of the Primary and Secondary Education Act, the increased costs of transportation of pupils with disabilities are regularly provided, as well as transportation costs of their assistants, when required due to the type and degree of the pupil's disabilities, who are being educated on the basis of decisions on appropriate programme and form of education. The payment is made on the basis of one school year, i.e. for 10 months, and a total of HRK 11.2 million has been paid out for the aforementioned activities in the period April-September 2016.

In June 2016, MSE initiated a tender procedure - Providing Assistants in Teaching and Professional Communication Intermediaries for Students with Developmental Disabilities in Primary and Secondary Educational Institutions. This ensures the funding of teaching assistants for the school year 2016/2017, and the ESF will ensure the work of 2,030 teaching assistants for 2,268 students with developmental disabilities in the total amount of HRK 74.7 million.

Also in June 2016, MSE initiated a Public call for submission of projects of associations who provide assistance services to students with disabilities for the school year 2016/2017, and funds generated from games of chance will ensure the work of additional 287 teaching assistants for 302 students with developmental disabilities in the total amount of HRK 11 million.

MSE provides co-funding of textbooks for pupils and students who exercise their rights under the Ordinance on the conditions, procedure and manner of realisation of the right to free textbooks of

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<sup>67</sup> OG, No. 87/08, 86/09, 92/10, 105/10, 90/11, 16/12, 86/12, 94/13, 152/14 and 7/17



Croatian Homeland War and their family members, the Ordinance on conditions, manner and method of realising the rights to free textbooks for military and civil invalids of war and the Decision on co-financing the procurement of textbooks and appropriate teaching tools for the needs of primary and secondary school students in the Republic of Croatia for the school year 2016/2017. The total of HRK 3.3 million was paid for the aforementioned activities in the period April-September 2016. In addition to this, scholarships for full-time students of lower socio-economic status are provided on an annual basis and within the regular activities of the MSE, in the amount of HRK 1,200 per month. A total of 5,286 state scholarships was awarded in 2016.

For several years now the funds are also being provided to cover a part of transportation costs for full-time students with disabilities. In 2016, 131 disabled students exercised their right to cover transportation costs. Co-funding of the costs of education of pupils and students of lower socio-economic status and pupils with developmental disabilities will also continue in the forthcoming period.

## **6. Use of European Structural and Investment Funds**

### **6.1. Progress in Increasing the Efficiency of ESIF Fund Use**

Until 31 March 2017, projects worth EUR 1,453.69 million, or 13.53% of allocated funds, were contracted. The Rural Development Programme records the best percentage of contracted funds (18.41%), and the worst percentage of contracted funds is recorded for the Operational Programme (OP) "Fisheries and Maritime" (9.12%). The positive absorption growth since the beginning of 2016 continued at the beginning of the fourth year of the seven-year financial period, which indicates the progress made in use of ESIFs.

The national priority Action Plan for Increasing the Efficiency of EU Fund Use for the period 2016-2018 was adopted in June 2016. The Action Plan was adopted in order to more closely define the implementation of the reforms in the area of withdrawals of ESIF funds, based on 3 objectives: reduction of the administrative burden, ensuring reliable asset management and ensuring a sufficient number of well-prepared projects. Through 20 envisaged action measures planned for the short-term (6-12 months), medium term (effect within 1-3 years) and long-term (effect 3+ years), the Action Plan aims to increase the efficiency of ESIF fund use.

Based on the monitoring of the treatment of competent authorities within the financial periods 2007-2013 and 2014-2020, we established a possibility of simplifying certain procedures to ensure greater efficiency and effectiveness of the bodies involved in the procedure, as well as the overall management and control system, which would also positively impact the applicants, grant awarding procedures and their users.

Implemented simplifications relate to several key aspects aimed at reducing the administrative burden on the body in the management and control system and on the user, i.e. reducing the duration of the grant award procedure from the moment of submission of the project proposal to the conclusion of the grant agreement, while ensuring compliance with the fundamental principles on which the granting process is based. Thus, in relation to the phases of the grant award procedure, the whole process is conceived in five phases, instead of the previous seven. The five phases may be further reduced, and all phases can be combined except the financing Decision, which must be autonomous.



For the purpose of simplifying and adapting business processes, which were considered as feasible and necessary in practice, methodological innovations have been introduced with regard to procurement selection for ex ante verification. In this regard, the procurement value is taken into account, depending on the requirements and specifics of a particular project.

Regarding the ex-post verification of the procurement procedure, as well as communication between the competent authorities in terms of the request for payment and the delivery of the decision on irregularities, procedures have been introduced to guarantee a reduction of administrative burden and a higher level of communication quality between the competent authorities (primarily in terms of shortening the processing time).

The process of dealing with irregularities in the financial period 2014-2020 has also been simplified, taking into account all the requirements of Article 122 of the Regulation (EU) No. 1303/2013. The simplified procedure involves handling in cases of action or omission of the user. Of course, it is always taken into account that this is not the kind of action that has or could have a financial impact on the EU budget. The latter refers to situations where the costs claimed by the beneficiary are approved due to inadvertence of the competent authority, and should not have been, but have not yet been verified.

Regarding persons who are not obliged by the Public Procurement Act<sup>68</sup>, the thresholds below which no publication is required were introduced (goods and services HRK 500,000, works HRK 1 million). This way, it is ensured that, in respect of procurement publishing obligation, the above mentioned thresholds apply to all users, whereby achieving the minimum level of competition proclaimed by the EU should be ensured through research of the relevant market.

The Managing Authority for the OP “Competitiveness and Cohesion 2014-2020”, in accordance with the applicable EU law, has established a way of applying simplified financing options for which no additional methodology is required. The same applies in cases of:

- Fixed rates for the calculation of indirect costs up to a maximum of 15% of eligible direct costs of staff: indirect costs (usually overhead and/or office costs, accounting costs and the like) calculated in this way during the implementation, which are not justified by any accompanying documents
- Standard proportions for staff costs calculated by dividing the latest documented annual gross employment costs by 1,720 hours; the cost of staff calculated in this way is explained one-time when proposing project costs, and only the time spent on the direct implementation of the project by the staff is checked during the implementation.

Simplified financing options imply allowing for payments that are not based on actual costs but on pre-determined unit costs/rates/amounts, thus reducing the administrative burden and demanding financial reporting, since it is not necessary to provide accompanying documentation for these transactions.

In the area of reducing the complexity of the management and control system of the OP “Competitiveness and Cohesion 2014-2020”, Amendments to the Regulation on bodies in the management and control system of the European Social Fund, European Regional Development Fund and Cohesion Fund were adopted<sup>69</sup>, in relation to the objective “Investment for Growth and Jobs”, which reduces the number of intermediate bodies in the system from 13 to 9.

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<sup>68</sup> OG, No. 120/16

<sup>69</sup> OG, No. 15/17 and 18/17 – corrigendum



Within the framework of the introduction of e-project applications and e-reporting, the user portal is being updated. In the next period, we expect the completion of the process of introducing functionality and full operation of the Management Information System (MIS).

For determining criteria (performance indicators) at the level of specific goals, existing methods and system for defining goals and their monitoring will be used. For the OP “Competitiveness and Cohesion 2014-2020”, the Annual Plan of Obligations has been set up, which contains an appropriate framework for monitoring the success of contracting, monitoring and validating. For the OP “Effective Human Resources 2014-2020”, the Contracting, Payment and Validation Plan, which is currently being drafted, will be used.

As part of the activation of financial instruments in 2017, new instruments will be launched for SMEs also in the field of energy efficiency.

During 2016, activities were continuously undertaken regarding strengthening the co-operation between the applicants/beneficiaries and the bodies providing support, as well as systematic training programmes aimed at strengthening administrative capacity at the national and regional level, and strengthening of collaboration and co-operation between the central and local levels in EU projects. We are preparing new training programmes for 2017, which will include education covering the areas of the OP “Effective Human Resources 2014-2020”, the Rural Development Programme and Horizontal Education Programme. A media campaign in the area of information on EU funds will intensify in order to provide as much information as possible on the possibilities of funding through the ESIFs.

## 6.2. Contribution to EU Initiatives and Reforms

Croatia will use the allocated EU funds for the contribution to major EU initiatives, as shown in the Table below.

Table 7: EU initiatives supported by EU funds for the Republic of Croatia

EU Initiatives	Croatian Strategies Supported by EU Funds
<b>Digital Agenda for Europe (DAE)</b>	DAE aims to provide maximum use of possibilities that digital technology offers to the economy and EU citizens. In this regard, Croatian investment priorities in using EU funds associated with the use of Information and Communication Technologies (ICT) are: increasing of national coverage of next-generation broadband network (NGA); improving ways of managing ICT infrastructure - unified strategic management and coordination of the development of IT infrastructure in state ownership, integration of IT infrastructure at the level of the entire public sector, standardisation of business processes, reducing and streamlining IT infrastructure expenditures; and addressing the issue of low access to e-services.
<b>Innovation Union</b>	The objective of the Innovation Union is to create jobs and growth through research and innovation. In this regard, the Croatian investment priority in using EU funds associated with innovation is to create and improve a research system open to innovation that will achieve performance excellence and attract best talents in accordance with the needs of the economy. This will be achieved through organisational reform-driven infrastructure investments; human resource development in the field of research, development and innovation; and support of research activities designed to further stimulate the transfer of knowledge and skills that can effectively contribute to social development and economic growth. EU funds will also be used to support the development of new products and services resulting from research, development and innovation activities in the business sector, which will directly raise investment in R&D and encourage additional private sector investment in R&D. Based on the Smart Specialisation Strategy we aim to direct



	public and private investment, as well as EU funding, to those areas where Croatia has the greatest opportunities for economic growth.
<b>Youth on the Move</b>	The objective of the Youth on the Move initiative is the mobility for the purpose of learning and training, employment, volunteering and youth exchanges. Croatia has received EU funds to increase employment and allow the faster integration of young people into the labour market, especially those who are not in employment, education or training.
<b>Resource Efficiency in Europe</b>	The Resource efficiency in Europe initiative supports the shift towards a resource-efficient economy with low carbon emissions in order to achieve sustainable development. In this context, operations supported by EU funds will contribute to the efficient and sustainable use of energy and reduction of greenhouse gas emissions. Measures relating to energy efficiency and renewable energy in infrastructure, the manufacturing industry, the service sector, and improving public energy infrastructure, i.e. heating and public lighting sector, will directly contribute to achieving energy climate objectives (20-20-20) contained in the Europe 2020 strategy. Through the improvement of the system for monitoring and assessing the impact of climate change, improvement of the management system for the protection against disasters and major accidents, and investment in reducing priority risks primarily associated with floods, EU funds will contribute to the objectives of the Europe 2020 strategy concerning the adjustment of natural and economic systems to climate change and reducing the risk of natural and technological disasters and accidents. Support from EU funds will also finance the sustainable use of cultural and natural heritage related to local development, assisting in the establishment of areas of the Natura 2000 network, and the protection, preservation, and re-establishment of biodiversity, as well as addressing specific environmental issues associated with air quality and the restoration and reuse of former industrial areas.
<b>Agenda for New Skills and Jobs</b>	Priorities for the use of EU funds in line with the Agenda for New Skills and Jobs include increasing the skill level of general population, providing solutions for the challenge of reconciling the supply and demand of skills on the labour market, improving the results of vocational education and training, and increasing participation in the educational system.
<b>European Platform Against Poverty</b>	Croatia's objective is to reduce the rate of risk of poverty and social exclusion to 150,000 by 2020. In order to support social inclusion and the right of people to live in the community, EU funds are invested in the process of de-institutionalisation and expansion of the network of community services. We also support projects that contribute to a higher level of employability and create better conditions for the employment rate of disadvantaged groups, as well as greater availability of social services.

The EU funds will also be used to support structural reforms, i.e. to achieve the objectives defined by the NRP, as shown in the table below.

Table 8: Reform measures supported by EU funds

Title of the reform measure	Description of EU fund investment	Qualitative effect — Description of projected impacts of the measure
<b>Improving the provision of electronic services and access to information for citizens and businesses</b>	Establishment of the e-Business system.	Creation of e-Business system portal ensures development of a larger number of e-services for business users. Presentation of e-services in a single place will provide an overview of all existing e-services to business entities. Integration with the system of authorisation to use e-services will be enabled, thus facilitating delegation of jobs in the business environment. Common functions will provide standardised solutions and easier use of different e-services.
<b>Revision of salary determination system in public administration</b>	Drafting proposals for general competencies for public administration employees and special competencies	Establishment of unified system for human resources management in the public administration, which includes a high-quality





<b>and public services</b>	required for performing specific tasks.	classification system, introduction of transparent and objective recruitment system based on competencies and a stimulating and fair reward and promotion system based on an objective assessment of job performance and quality of work done by employees.
<b>Improving the monitoring system of administrative procedures</b>	Designing and setting up an IT system for monitoring and supervision of administrative procedures and its introduction into all public bodies.	Establishment of the IT system will enable collection of data on administrative procedures and on the application of individual GAPA institutes, which will enable the analysis of collected data and suggest measures for eliminating the observed deviations, simplification, informatisation and the need to educate civil servants. Solving administrative matters will be simpler, faster and at a lower cost.
<b>Rationalisation and industrialisation of state information infrastructure and easier access to services provided by public administration</b>	Establishment of Shared Services Centre to full functionality.	The following will be provided to all public administration bodies: sharing of services, hardware, licenses and software based on "cloud" computing paradigms; ability to use shared, reliable and scalable information and communication infrastructures based on cloud computing paradigms, as a basis for development and implementation of e-services; ability to use reliable storage for own computer and communication equipment in the Shared Services Centre; and availability of advisory services through the Shared Services Centre, as an aid in the development and implementation of new technological solutions. Establishment of single administrative sites will facilitate access to public administration. Citizens and entrepreneurs will use computerised services through platforms e-Citizens or e-Business system, and citizens who do not use digital technologies will be able to realise their rights by visiting a single administrative site where they can get assistance from civil servants.
<b>Further development of information and communication technologies in the judiciary system</b>	Upgrading IT Systems in Courts.	Quicker judicial proceedings will create an environment that encourages development.
<b>Raising the quality of adult education systems and increasing the availability of education programmes to adults</b>	Implementation of the project Supporting the Education of Adult Learners by including them in educational priority programmes. Implementation of the project Improving Literacy – the foundation of lifelong learning.	Increased number of participants in lifelong adult education.
<b>Implementation of the Croatian Qualification Framework (CROQF)</b>	CROQF establishment and management as support to the work of Sector Councils and other stakeholders in the process of CROQF implementation.	Institutional prerequisites will be provided to align study and educational programmes with labour market needs.
<b>Improving the relevance of vocational education and training in relation to the labour market and its quality</b>	Development of competition and contest system for pupils.	Improved vocational education system.
<b>Increasing the representation of traineeship in higher</b>	Development and improvement of the learning model through work and implementation of an improved model of	Greater representation of traineeship in higher education.





<b>education</b>	professional practice in higher education.	
<b>Establishment of the system for strategic planning and development management</b>	Improving the methodology for the development of strategic documents and mechanisms for involving the public concerned.	Improved methodology for the development of strategic documents and mechanisms for involving the public concerned.
	Development and implementation of IT systems for strategic planning and implementation monitoring.	Integrated strategic and budget planning, which will facilitate the development of strategic documents (short, medium and long-term), since they should contain relevant objectives, performance indicators and the necessary sources of financing.
	Designing and implementation of training for senior officers responsible for development and implementation of strategic documents.	Conducted training for senior officers, which will facilitate the application of prescribed guidelines and greater quality in drafting and implementation of strategic documents.
	Drafting of a main document that will define the national development priorities, which will be the basis for the development of medium-term (multi) sectoral strategies and the use of EU funds in the next financial perspective.	Drafting of the National Development Strategy, as a main document, defined national development priorities for a ten-year period, which is the basis for the development of other medium-term national strategies and the use of EU funds in the next financial perspective.
<b>Increasing the efficiency and quality of healthcare services</b>	Equipping of day hospitals.	Increasing the quality of service and a greater number of patients taken care of.
<b>Improving primary healthcare and palliative care</b>	Improving the access to PHC with emphasis on remote and deprived areas by investing in the needs of primary healthcare providers.	Greater availability and quality of healthcare services; more efficient and rational use of health resources.
	Financing the specialist training of medical doctors in the PHC.	Access to healthcare services will be improved in deprived and less attractive areas, and to vulnerable groups, through funding of specialist trainings for medical doctors.
	Implementation of continuous education of health workers in PHC.	A comprehensive and controlled system of continuing professional training of general practitioners/family medicine practitioners will increase the knowledge and skills of general/family medicine practitioners.
<b>Integration of social benefits monitoring</b>	Creating surveys of business processes of social welfare centres and other bodies involved in the process of social benefits (CES, CPII, CHIF), with an emphasis on the process of the realisation of social benefits.	Ensuring process standardisation. Ensuring real time checks of rights.
	Creating modules in SocSkrb system for data exchange.	



## 7. Institutional issues and the involvement of stakeholders

Given the importance of the European Semester as a mechanism for coordination of economic policies within the EU and the instrument for planning and monitoring of national structural reforms, the Government of the Republic of Croatia has adopted a Decision on coordination of activities within the EU Economic Governance Framework, which defined the institutional framework and procedures related to coordination of activities within the EU Economic Governance Framework - European Semester at the level of the Government of the Republic of Croatia. The Decision established an Inter-Agency Working Group for the European Semester, led by the Vice-President of the Government of the Republic of Croatia for Economy, whose members are Vice-Presidents of the Government and Ministers. Coordinators for the European Semester were also appointed at ministerial level, who are responsible for elaboration of reform measures and activities in accordance with the priorities and objectives set by the Working Group, preparation of implementation plans, coordination of implementation of reform measures, recommendations of the Council of the EU and measures to achieve the objectives of the Europe 2020 Strategy and reporting on the progress in their implementation.

One of the important elements of the European Semester's cycle is the establishment of social dialogue, i.e. inclusion of social partners in the process itself, with the aim of respecting and promoting consensus building over the main objectives and proposed reform measures. Therefore, during the European Semester's cycle, a series of meetings with social partners were held to discuss key reports within the European Semester and agree on ways of co-operation, as well as to familiarise social partners with the direction of reform measures and achieve their active contribution in defining the best reform solutions.

At the session of the Economic and Social Council on 30 January 2017, the Alert Mechanism Report 2017 was presented to social partners, as well as the state of implementation of the measures and activities defined by the National Reform Programme 2016. Social partners were also informed on the planned course of activities within the European Semester, and the way of involving social partners in the whole process was agreed.

After the publication of the Croatian Report, a session of the Economic and Social Council was held on 27 February 2017, with discussion about the findings of in-depth analysis conducted by the EC for the Republic of Croatia, which was published within the report. The modality of further cooperation, as well as thematic meetings with the social partners, as part of the NRP development were also agreed.

In March 2017, five special thematic meetings were held between the relevant ministries and social partners, on which the proposed measures for 2017 were discussed, namely: regarding health, labour market and pension system, social benefits, public administration and science and education.

At the session of the Economic and Social Council on 10 April 2017, the whole set of reform measures, proposed by the Government of the Republic of Croatia within this-year's NRP, was discussed with the social partners.

It is important to emphasise that, apart from involving the social partners in the European Semester's cycle, at the stage of implementation of measures defined by the NRP, social partners and the public concerned will be involved and will be able to participate and influence the content of final solutions in accordance with the rules of procedure, which include consulting with the interested public.

After its adoption at the session of the Government of the Republic of Croatia, NRP will be presented to representatives of the Croatian Parliament.



## ANNEXE 1: MAIN OBJECTIVES, REFORM AREAS AND ECONOMIC POLICIES

Title of the reform measure	EU Council Recommendation	Short description of the reform measure	Qualitative effect — Description of projected impacts of the measure	Fiscal effect — Total and annual change of Government revenue and expenditure	Legal/administrative instruments of measure implementation	Activities for the implementation of measure	Deadline for the implementation of activities	Implementing authority
<b>1. STRENGTHENING ECONOMIC COMPETITIVENESS</b>								
<b>1.1. Improving the business environment</b>								
1.1.1. Unification of inspection services		Integration of inspection services will eliminate the division into the competencies of different economic inspections. A working group will be set up to determine which inspection activities should be unified for a more functional and efficient performance of inspection activities in the economy. Rationalisation of the existing organisation will be carried out and the optimal organisation of inspections will be determined. By adopting the new Regulation on inspections, new organisation and common principles of inspection procedures will be established, with a view to relieve economic operators of frequent, uneven and uncoordinated inspection supervisions and procedures.	Business sector receives a guarantee of coordinated and consistent inspection procedures.	The measure is of normative nature.	Decision of the Government of the Republic of Croatia on the establishment of a working group for drafting the new regulation on inspections; New regulation on inspections	1.1.1.1. Adoption of the Decision on the establishment of a working group for drafting the new regulation on inspections.	May 2017	MEC
					Regulation on the internal organisation of the inspection body	1.1.1.2. Adoption of regulations that will regulate inspection activities, organisation and manner of operation of the inspection body.	September 2017	MEC (SAB)
						1.1.1.3. Adoption of the Regulation on the internal organisation of the inspection body.	September 2017	MEC
					Amendments to special acts regulating the scope of inspection activities that are transferred to the newly established inspection body	1.1.1.4. Amendments to special acts regulating the scope of inspection activities that are transferred to the newly established inspection body.	December 2017	MEC (SAB)
1.1.2. Relieving the economy from excessive administrative costs and non-tax payments	CSR4: Reducing the administrative burden on companies; CSR4: Significantly reducing parafiscal charges.	In addition to eight measured areas, we plan to expand the implementation of the SCM methodology for systematic auditing of quality and regulatory costs, i.e. measuring and reducing administrative burdens in all regulatory areas affecting business operations, including service market competitiveness. Measures for reducing administrative burdening by at least 30% will be implemented by the end	Business sector relieved by at least 30% of excessive administrative costs of regulations and high penalties. Business sector relieved by at least 20% of excessive non-tax payments. Contribution to the efficiency of administration and public	We can expect positive fiscal impacts on revenues due to an increase in economic activity stimulated by entrepreneur savings.		1.1.2.1. Extension of the application of SCM methodology for measurement and targeted reduction of administrative burden on the economy.	June 2017	MEC
						1.1.2.2. Adoption of the new Action Plan for administrative relief of the economy.	February 2018	MEC



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		of 2018 for each legislative area, including reduced penalties and removal of barriers to market competition. Assessments of economic impacts of regulations are introduced through the application of SME tests, including the application of SCM methodology, to prevent new administrative costs, charges and barriers to market competition. The total parafiscal burden on the economy and citizens in 2016 was HRK 9.3 billion (2.8% of GDP) and should be reduced by at least 20% in the period 2017-2019. In partnership with the business sector, it is planned to develop an interactive web portal through which entrepreneurs and citizens report administrative costs, barriers and fees, and follow up the process of relief.	policies for the economy. Contribution to the long-term improvement of Croatian economy's competitiveness indicators according to relevant world methodologies.			1.1.2.3. Adoption of the Regulation on SME test.	May 2017	MEC
						1.1.2.4. Development of a web portal for reporting barriers and charges.	December 2017	MEC
						1.1.2.5. Amendments to the Regulations stipulating non-tax payments based on decisions made by the Inter-Agency Committee for reduction and elimination of non-tax payments.	continuous	MEC
		A strategic framework for strengthening the implementation of the regulatory impact assessment for the period 2017-2022 will be established. The capacity of civil servants will be strengthened in the area of implementation of the methodology of regulatory impact assessment, implementation of SME test and SCM methodology, as well as simplifying the process of regulatory impact assessment with the aim of improving the analysis of the impact of laws and the implementation of legislative activities of the Government of the Republic of Croatia.	The ex-ante regulatory impact assessment procedure is simplified and harmonised with the legislative procedure and upgraded by including elements of the SCM methodology and SME test. Civil servants who are authorised to develop documents within the regulatory impact assessment system are adequately educated. Civil servants in the bodies responsible for drafting regulations are additionally trained in	Measures are of process/procedural nature and do not have a direct fiscal impact. All trainings take place within the State School for Public Administration, within the planned budget.	Regulatory impact assessment strategy for the period from 2017 to 2022.	1.1.2.6. Adoption of the Regulatory impact assessment strategy for the period from 2017 to 2022.	October 2017	LO
					Action Plan for 2018 for the implementation of the Regulatory Impact Assessment Strategy for the period from 2017 to 2022.	1.1.2.7. Adoption of the Action Plan for 2018 for the implementation of the Regulatory Impact Assessment Strategy for the period from 2017 to 2022.	December 2017	LO, MEC
					Regulation on the implementation of the procedure for regulatory impact assessment	1.1.2.8. Adoption of the Regulation on the implementation of the procedure for regulatory impact assessment.	June 2017	LO
					Guidelines for regulatory impact assessment	1.1.2.9. Updating of the Guidelines for regulatory impact assessment.	December 2017	LO



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			drafting and implementing regulations, which contributes to the quality of legislation.		Training programme	1.1.2.10. Implementation of training for civil servants in the application of the methodology for regulatory impact assessment.	continuous	LO
						1.1.2.11. Preparation of training programmes for civil servants in the application of SME test and SCM methodology and implementation of training.	July 2017; continuous	MEC
						1.1.2.12. Implementation of training for civil servants on drafting and application of regulations.	continuous	LO
						1.1.2.13. Implementation of training and workshops on drafting and application of regulations for civil servants and officials in ULRSG bodies.	continuous	LO
		Implementation of administrative relief of public procurement through e-procurement or integration of ESPD form into Croatian EOJN. This will enable easier and faster data verification during public procurement procedures by linking key public registers (business registers, TA, criminal records etc.) with the Croatian EOJN system operated by the company Narodne novine d.d., as well as improve the EOJN RH system and develop additional modules needed for integration of ESPD and necessary data from public registers in the Croatian EOJN interface.	Entrepreneurs will be able to electronically complete ESPD when preparing their e-offers. New modules will be developed in the EOJN RH, which will allow automatic verification of data from related registers during review and evaluation of bids or requests for participation. Business sector relieved of redundant administrative costs and obstacles due to development of e-procurement and the most economically advantageous offer		Public Procurement Act	1.1.2.14. Implementation of ESPD in EOJN RH.	December 2017	MEC, OG
						1.1.2.15. Linking public registers with the Croatian EOJN portal and implementation of interoperable solutions.	December 2017	MEC, OG
						1.1.2.16. Development of a new module in Croatian EOJN.	December 2017	MEC, OG

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			criteria.					
1.1.3. Services market liberalisation and development of Point of Single Contact	CSR4: Eliminating the unjustified regulatory barriers hindering access to regulated professions and their performance.	The liberalisation of the services market will be carried out through the modification and adaptation of sectoral legal and by-law regulations for the services market. A range of sectors will be covered by liberalisation - private education, temporary employment agencies, traffic, taxi, lease of vehicles with driver and pre-contracted carriage of passengers, technical inspection of vehicles, attestation, rental, leasing and rental of business premises, tourism, waste management, architects, engineers, pharmacy, psychotherapy, private protection, private health, execution enforcements and many other regulated professions. Regulatory framework analysis for the services market will be implemented through the planned extended application of SCM methodology for measuring and targeted reduction of administrative burden. Within the framework of the EU Electronic Single Point of Contact <a href="http://www.cut.hr">www.cut.hr</a> , the development of Point of Single Contact <a href="http://www.psc.hr">www.psc.hr</a> will continue, which will provide all administrative responses to the regulatory business conditions and access to the internal market of services in one place. The number of information sets on administrative burdens will increase and an e-register of regulations will be established. E-procedures will be	Business sector free from barriers to market competition and access to the EU's internal market. The business sector has lower administrative cost of starting a business and accessing the services market. All administrative information about the regulations accessible to business sector in one place.	We can expect positive fiscal impacts on revenues due to an increase in economic activity stimulated by entrepreneur savings.	Services Act; EU Services Directive; Treaty on the functioning of the EU	1.1.3.1. Modification and adaptation of sectoral regulations for the services market.	continuous	MEC
						1.1.3.2. Modernisation of web site design of the portal <a href="http://www.psc.hr">www.psc.hr</a>	April 2017	MEC, CCE
						1.1.3.3. Publication of new bilingual business information sets.	December 2017	MEC, CCE
						1.1.3.4. Development of e-services by implementing the Conclusion on the Introduction of Electronic Procedures for Registration of Business Establishment and Obtaining Approval for Performing Service Activities. Publishing of e-service links through Point of Single Contact.	December 2017	MEC, CCE



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		introduced for easy registration of business establishments, as well as fast e-service for access to service activities, integrated into the state information infrastructure and accessible through the Point of Single Contact.						
1.1.4. Improving the provision of electronic services and access to information for citizens and businesses	CSR4: Reducing the administrative burden on companies	Access to e-services and delivery of messages to business user mailbox will be enabled to business entities, modelled on the e-Citizens system. Credentials system will be improved to enable citizens and legal entities from the Republic of Croatia the access and use of cross-border e-services provided by other Member States and vice versa. Further advancement of the e-Citizens system will continue.	Creation of e-Business system portal ensures development of a larger number of e-services for business users. Presentation of e-services in a single place will provide an overview of all existing e-services to business entities. Integration with the system of authorisation to use e-services will be enabled, thus facilitating delegation of jobs in the business environment. Common functions will provide standardised solutions and easier use of different e-services.	HRK 44.5 million is provided for the implementation.	Decision of the Government of the Republic of Croatia on the launching of the e-Business project; Decision of the Government of the Republic of Croatia on amendments to the Decision on the launching of the e-Business project	1.1.4.1. Establishment of the e-Business system.	December 2017	MPA
						1.1.4.2. Enabling access to public e-services in the Republic of Croatia to EU/EEA citizens.	December 2017	MPA
					Regulation of the Government of the Republic of Croatia on the criteria for setting the amount of fees for the reuse of information	1.1.4.3. Adoption of the Regulation of the Government of the Republic of Croatia on the criteria for setting the amount of fees for the reuse of information.	December 2017	MPA
					Ordinance on the types and content of permits that stipulate conditions of reuse	1.1.4.4. Adoption of the Ordinance on the types and content of permits that stipulate conditions of reuse with the Act on the Right of Access to Information.	January 2018	MPA
1.1.5. Electronic business start-up	CSR4: Reducing the administrative burden on companies	Adoption of a new legislative framework to enable the electronic start up of business or business establishment. Regulatory analysis of existing data systems and registry processes will provide a good basis for development of a	Starting of business will be possible in 3 days through a smaller number of steps and at a minimum cost of establishment. Business	We can expect positive fiscal impacts on revenues due to an increase in the number of established business entities.	Services Act; EU Services Directive	1.1.5.1. Adoption of new legislative framework for registration of business entities.	December 2017	MEC, MJ
						1.1.5.2. Implementation of business register analysis.	June 2017	MEC, AIC





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		modern central business registry. This will create a one-stop-shop system for fast start-ups and a number of other e-services, linked to the state information infrastructure.	sector will be relieved by at least 70% of excessive administrative costs of starting a business.			1.1.5.3. Preparation of recommendations for the establishment of integrated one-stop-shop system and electronic registration of business establishments within the framework of a modern central business register.	September 2017	MEC
1.1.6. Improving the cadastre and land registry system	CSR4: Reducing the administrative burden on companies	Adoption of laws is envisaged to enable the functional combination of land registers and cadastre, and adoption of regulations to simplify land registry procedures, as well as introduction of electronic communications. Establishment of the information system for drafting, adopting, implementing and monitoring spatial plans, ongoing monitoring of spatial situation and spatial planning and creating reports on the spatial situation will continue. IT system consists of several modules represented by individual applications (ePermit, eCatalogue, ePlans, eProperty, eArchive, eInspection, Spatial Plan Registry etc.) and a geoportal for viewing spatial layers from individual modules and external sources. The measure includes activities on the complete establishment of IT system for property market - eProperty.	Linking public administration bodies over the Internet will enable rational use of existing resources and ensure institutional memory. Spatial plans and other data relevant for spatial planning will be made available to the public, potential investors and public administration bodies. Quick access to information on the possible use of space will be enabled, procedures for issuing documents in the field of spatial planning, construction and real estate valuation will be rationalised and harmonised. Conditions for better space management in general will be created, transparency and more active participation of the public will be improved in procedures of drafting and enacting spatial plans, and the time needed to	A positive impact of the implementation of this measure on the State Budget is assumed, indirectly through improvement of the investment climate and better management of spatial resources.	Detailed plan of cadastral surveys and the establishment and renewal of land registries	1.1.6.1. Drafting a Detailed plan of cadastral surveys and the establishment and renewal of land registries.	July 2017	MJ, SGA
					Programme of cadastral surveys and the establishment and renewal of land registries	1.1.6.2. Drafting of the Programme of cadastral surveys and the establishment and renewal of land registries.	September 2017	MJ, SGA
					Plan for the implementation of functional integration of Cadastre and Land Registry Departments	1.1.6.3. Adoption of the Functional Integration Plan.	December 2017	MJ, SGA, MCPP
					Act on the Amendments to the Act on Land Registry	1.1.6.4. Adoption of the Amendments to the Act on Land Registry to simplify land registry business processes (Phase I).	June 2017	MJ
					Act on Land Registry	1.1.6.5. Adoption of the new Land Registry Act that would systematically cover all changes in the Land Registry administration system (Phase II).	December 2017	MJ



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			realise the investment will be shortened.		Regulations establishing the legal framework for the implementation of functional integration of Cadastre and Land Registry	1.1.6.6. Making changes to regulations establishing the legal framework for the implementation of functional integration (Phase I).	December 2017	MJ, SGA, MCPP
					Spatial Planning Act; Construction Act; Construction Inspection Act; Regulation on information system of physical planning	1.1.6.7. Reengineering the ePermit system; establishing horizontal and vertical integration within the ISPP, inclusion of the remaining 3 offices in the ePermit module.	continuous	MCPP
						1.1.6.8. Establishment of the Spatial Plan Registry module for transitional period until the full establishment of the new generation spatial planning system.	December 2017	MCPP
						1.1.6.9. Processing data of existing spatial plans and implementation in the Spatial Planning Registry module to an up to date status.	December 2018	MCPP
						1.1.6.10. Continuation of the establishment of ePlans module for new generation plans.	continuous	MCPP
						1.1.6.11. Establishment of eInspection module.	December 2018	MCPP
					Act on the Assessment of Property Values	1.1.6.12. Adoption of the Regulation on mass assessment of property values.	December 2017	MCPP



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						1.1.6.13. Creating project documentation for initiating a public procurement procedure regarding the creation of initial state of approximate value plans or price blocks.	June 2017	MCPP
						1.1.6.14. Establishment of eArchives module for permits.	December 2017	MCPP
<b>1.2. Improving the disposition and management of state assets</b>								
1.2.1. More responsible management and more successful monitoring of business operations of companies in the state portfolio	CSR3: Making progress in the process of alienation of state property and strengthening the monitoring of performance and management responsibilities of state-owned companies, including progress in listing the stocks of state-owned companies on the stock market.	Define the methodology for determining and monitoring the medium-term objectives of companies in the state portfolio and conducting a pilot project for the preparation of mid-term plans on a smaller number of companies. Implementation of the measure will result in more responsible management and more successful business operations of companies through introducing mid-term management and better quality control by the supervisory boards of the companies, which will be regulated by the adoption of the Decision on the introduction of mid-term planning, the Guidelines for drafting of internal documents for management of wage policy and linking of wages with results of mid-term plans of strategic companies and the Code of Corporate Governance. An ongoing analysis of the current planning system in strategic companies is under way, followed by guidance on developing methodologically standardised mid-term business plans for all strategic companies, so that they	Defined owner policies in companies in the state portfolio. Reducing the level of indebtedness of strategic companies, and thus the general government debt. Systematic monitoring of restructuring of companies in the state portfolio.	Activities that are planned do not have a direct fiscal impact on the State Budget because most of them are of normative nature, and the costs of conducting analysis and training are financed through the SRSP project.		1.2.1.1. Analysis of the current system of planning in companies.	May 2017	MSP, Committee of the Government of the Republic of Croatia
					Decision of the Government of the Republic of Croatia on the Guidelines for drafting internal documents for management of wage policy and linking of wages with results of mid-term plans of strategic companies.	1.2.1.2. Drafting of the Guidelines for drafting internal documents for management of wage policy and linking of wages with results of mid-term plans of strategic companies.	July 2017	MSP
					Decision of the Government of the Republic of Croatia regarding the introduction of medium-term planning obligation	1.2.1.3. Introduction of the obligation to develop methodologically standardised medium-term business plans for all strategic companies.	September 2017	MSP



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		would prepare mid-term business plans. Based on the developed methodology, the implementation of restructuring plans of strategic companies in difficulty will be monitored.				1.2.1.4. Education for preparing methodologically standardised medium-term business plans for all strategic companies.	October 2017	MSP
					Corporate Governance Code	1.2.1.5. Adoption of the new Corporate Governance Code.	May 2017	MSP
					Decision on the methodology for restructuring plan monitoring	1.2.1.6. Defining the methodology for restructuring plan monitoring.	November 2017	MSP (MF and competent SAB)
					Decision on the list of companies in difficulties	1.2.1.7. Determining a List of companies in difficulties whose restructuring plans will be monitored.	November 2017	MSP (MF and competent SAB)
1.2.2. Re-evaluation of strategic assets and reducing the state portfolio of companies, apartments, business premises and land	CSR3: Making progress in the process of alienation of state property and strengthening the monitoring of performance and management responsibilities of state-owned companies, including progress in listing the stocks of state-owned companies on the stock market.	Identification and preparation for privatisation of non-strategic companies and sale of non-strategic companies with the purpose of selling minority interests, and companies in which there is no influence on the management and no economic benefit from profit or dividends. Effective reduction of the state portfolio of ownership over apartments, business premises and land, and the activation of unused state property (e.g. assigning functions to former army barracks through sales, leases, construction rights, etc.).	Reducing the budget deficit and public debt and increase of credit rating.	The State Property Management Plan for 2017 (which has not yet been adopted) envisages revenue of HRK 1.0 billion from sales of apartments, business premises, land, payment of dividends, sales of stocks and shares in companies.	Decision on the list of strategic companies	1.2.2.1. Amendments to the Decision of the Government of the Republic of Croatia on the list of strategic companies.	July 2017	MSP, RSC
					Regulation on the sales of stocks and business shares	1.2.2.2. Amendments to the Regulation on the sales of stocks and business shares.	September 2017	MSP, RSC
						1.2.2.3. Sale of non-strategic companies.	continuous	MSP, RSC
					Act on Management and Disposition of the Property Owned by the Republic of Croatia	1.2.2.4. Adoption of the new Act on Management and Disposition of the Property Owned by the Republic of Croatia.	June 2017	MSP
					Act on the Amendments to the Act on Lease and Sale of Business Premises	1.2.2.5. Amendments to the Act on Lease and Sale of Business Premises.	September 2017	MSP



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					Act on the Amendments to the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process	1.2.2.6. Amendments to the Act on Tourist and Other Construction Land Not Evaluated in the Transformation and Privatisation Process.	December 2017	MSP, RSC
					Decision on the sale of apartments owned by the Republic of Croatia	1.2.2.7. Adoption of the Decision on the sale of apartments owned by the Republic of Croatia.	December 2017	MSP
					Regulation on disposition of properties owned by the Republic of Croatia	1.2.2.8. Amendments to the disposition of properties owned by the Republic of Croatia.	December 2017	MSP
						1.2.2.9. Reduction of the state portfolio on land (lease, construction right).	continuous	MSP
1.2.3. Redefining the concept and structure of comprehensive state property records	CSR3: Making progress in the process of alienation of state property and strengthening the monitoring of performance and management responsibilities of state-owned companies, including progress in listing the stocks of state-owned companies on the stock market.	The measure aims at long-term transformation of the existing State Property Register from an administrative into a management system. It will provide a comprehensive insight into the scope and structure of all emerging forms of property owned by the Republic of Croatia, through definition of data model based on the defined standardised methodology in accordance with international standards. The implementation of the measure includes the definition and development of a methodologically standardised basis for quality and transparent decision-making on property management. The instrument of the implementation of this measure is the project of multi-year and multi-stage functional establishment of the IT System	Reclassification of displayed forms of property in accordance with international standards. A standardised model and applied application solution (web application, horizontal portal) developed for comprehensive coverage of updated and authentic legal, physical, economic and financial data on displayed forms of property owned by the Republic of Croatia, as a basis for clear and quality decision-making on property management.	Total planned fiscal impact of the implementation of the measure in the part of the completion of the ISUDIO project - the planned state budget expenditure for the period 2016-2018: HRK 4.5 million. Fiscal impact realised in the period from 1 January to 31 December 2016 - Expenditures of the State Budget: HRK 1.38 million. Planned annual change in the State Budget expenditures regarding the planned	Regulation on the organisation, procedure of maintaining and the contents of the Central Register of State Property	1.2.3.1. Adoption of the Regulation on the organisation, procedure of maintaining and the contents of the Central Register of State Property.	September 2017	MSP
						1.2.3.2. Defining and structuring data models for emerging forms of financial assets.	June 2017	MSP
						1.2.3.3. Creating an IT Asset Management System Application (ISUDIO II).	July 2017	MSP
						1.2.3.4. Electronic connection with joint information system of the Land Registry and Cadastre (JIS) through a web service.	September 2017	MSP, SGA, MJ



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		for State Property Management (ISUDIO) as data and programme upgrade of the existing State Property Register.	Electronically connecting with fundamental and public registers. Online access to the system (electronic data entry by data providers through web application or horizontal portal). A greater degree of credibility and validity and systematic control of state property data.	implementation of the measure in the period from 1 May to 31 December 2017: HRK 1.5 million.		1.2.3.5. Linking of ISUDIO II with the Court Register, Central Depository Agency and Zagreb Stock Exchange and putting the system into operation.	December 2017	MSP
						1.2.3.6. Implementation of public tender for linking ISUDIO to the Register of Cultural Goods and other public registers (Phase III).	January 2018	MSP
1.2.4. Strengthening the transparency at the level of companies in which ULRSGs have ownership interests		Activities will continue to strengthen transparency at local and regional levels, after the creation of a newly-established list of companies in majority ownership of ULRSGs, as a living mechanism with the need for updating by the owners of companies. An overview of the current state of local government levels established the existence of real risks of corruption in work and asset management, or companies in majority ownership of ULRSGs. Systematisation in the field of local level property supervision is planned to generally improve the transparency and accountability in the sector of locally owned companies, or the efficiency of Units of Local and Regional Self-Government.	Complete records of companies in which ULRSGs have ownership interests. System of monitoring business operations of companies in which ULRSGs have ownership interests was established.	The measure is of normative and analytical nature.	Instructions for keeping and publishing of lists of companies in majority ownership of ULRSGs	1.2.4.1. Drafting of the Instructions for keeping and publishing of lists of companies in majority ownership of ULRSGs, with data on ownership structure.	September 2017	MJ
						1.2.4.2. Monitoring publications of the list of companies and ownership structure for companies in majority ownership of ULRSGs.	December 2017	MJ
<b>1.3. Effective human resources management and provision of public administration services</b>								
1.3.1. Revision of salary determination system in public administration and public services	CSR3: Aligning the payroll determination frameworks in public administration and public services based on consultations with	Determining the competency framework for employed civil servants in managerial and non-executive positions in public administration and public services, revision of salary determination system and drafting of the legislative framework.	Established a unified system for human resources management and monitoring in the public administration and public services, which includes a high-quality classification system, introduced a transparent	HRK 245,000.	Pilot Project for Human resources management	1.3.1.1. Linking of human resources data on workplaces and employees in the civil service, preparation of workplace complexity analysis, catalogue of jobs and tasks, developing a model of evaluation and assessment	July 2017	MLPS

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	social partners.		and objective recruitment system based on competencies and a stimulating and fair reward and promotion system based on an objective assessment of job performance and quality of work done by employees.			of the efficiency of employees, simulation of the actual conditions for determination of salaries and linking all relevant information on workplaces and employees.		
					Act on Wages in Civil Service	1.3.1.2. Drafting proposals of the Act on Wages in Civil Service.	December 2017	MLPS
				HRK 16 million (85% ESF, 15% national co-financing).		1.3.1.3. Drafting proposals for general competencies for public administration employees and special competencies required for performing specific tasks.	March 2018	MPA
						1.3.1.4. Drafting competency profiles for individual jobs in public administration.	September 2018	MPA
					Act on Wages in Public Services	1.3.1.5. Drafting proposals of the Act on Wages in Public Services.	December 2018	MPA





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1.3.2. Enhancement of the system of collective bargaining on the conclusion of collective agreements which are binding for the Government of the Republic of Croatia	CSR3: Aligning the payroll determination frameworks in public administration and public services based on consultations with social partners.	Establishment of a central coordination system in collective bargaining implies adoption of a Decision of the Government of the Republic of Croatia on the establishment of a central body for registration, coordination and monitoring of collective agreements applicable to state and public service employees whose salaries and other material rights are provided by the State Budget, or Treasury under the special regulation, and employees in public institutions whose salaries are provided from CHIF funds, and conclusion of harmonised, legally and financially sustainable collective agreements.	More effective coordination of the relevant central SABs in the process of collective bargaining on the conclusion of collective agreements binding for the Government of the Republic of Croatia. Equal access of negotiating committees of the Government of the Republic of Croatia. Enhanced financial management of funds provided from the State Budget and ensuring the sustainability of the payroll system in state and public services.	Costs of possible new employment.	The Decision of the Government of the Republic of Croatia on the establishment of a central body for registration, coordination and monitoring of collective agreements applicable to state and public service employees whose salaries and other material rights are provided by the State Budget, or Treasury under the special regulation, and employees in public institutions whose salaries are provided from CHIF funds.	1.3.2.1. Analysis to define the scope of work, structure and the necessary human resources for the establishment of a central body for more effective coordination in collective bargaining.	December 2017	MLPS
					Collective agreement for civil servants and public servants	1.3.2.2. Analysis of the legal and financial impacts of collective agreements binding for the Government of the Republic of Croatia.	December 2017	MLPS
1.3.3. Improvement of strategic and implementation framework for fight against corruption		The measure continues to strengthen the implementation of the Anti-Corruption Strategy for the period 2015-2020, after the implementation of the first supporting implementation document of the Action Plan for 2015 and 2016, and further improves the systematic monitoring of implementation and impact assessment of measures and activities from anti-corruption acts.	Enhanced elements of preventive anti-corruption mechanism, i.e. the elements of corruption risk management in the state administration, ULRS, public law bodies, companies in which the state and ULRS have ownership interests, private and non-profit sector and an enhanced institutional framework for monitoring the implementation and evaluation of impacts of activities from national	The measure has no direct fiscal impact.	Action Plan for 2017 and 2018 with the Anti-Corruption Strategy for the period from 2015 to 2020	1.3.3.1. Adoption of the Action Plan for 2017 and 2018 with the Anti-Corruption Strategy for the period from 2015 to 2020.	May 2017	MJ
					Decision on the founding of the Council for the Prevention of Corruption	1.3.3.2. Founding of the Council for the Prevention of Corruption.	April 2017	MJ

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			documents related to anti-corruption.					
		A procedure will be established to identify, manage and resolve conflicts of interest in public administration. The Public Sector Ethics Act will be adopted, which will apply to employees in SABs and other state and administrative bodies and bodies of ULRSs, as well as legal entities and other bodies with public authority, legal entities performing public service, legal entities established by the Republic of Croatia or ULRSs, legal entities financed on the basis of a special regulation, predominantly or wholly from the State Budget or from the ULRSs budget and companies in which the Republic of Croatia or ULRSs have separate or majority ownership. This Act will uniformly prescribe the basic standards of behaviour and treatment of public sector employees towards citizens and other public sector parties, the obligation to adopt the Code of Ethics, and regulate the institutional framework for strengthening the ethical system at all levels of public bodies.	Effective and consistent policy of management of conflict of interest in public administration that will contribute to strengthening of the citizens' trust in the ethics of public administration and its employees. Established a uniform ethical infrastructure in the public sector.		Conclusion of the Government of the Republic of Croatia on the Adoption of Guidelines for the management of conflict of interest in public administration	1.3.3.3. Drafting of the Guidelines for the management of conflict of interest in public administration with practical examples and tools.	April 2017	MPA
					Public Sector Ethics Act	1.3.3.4. Adoption of the Public Sector Ethics Act.	December 2017	MPA
1.3.4. Improving the monitoring system of administrative procedures		Systematic monitoring of GAPA implementation and designing and setting up an IT system for monitoring and supervision of administrative procedures and its introduction into all public bodies.	Establishment of the IT system will enable collection of data on administrative procedures and on the application of individual GAPA institutes, which will enable the	EUR 64,197.20 (90% IPA, 10% national co-financing).	General Administrative Procedure Act	1.3.4.1. Development of the Relational Database Management System (RDBMS), as well as the related IT system for monitoring on the basis of web technology.	September 2017	MPA

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			analysis of collected data and suggest measures for eliminating the observed deviations. Solving administrative matters will be simpler, faster and at a lower cost.			1.3.4.2. Implementation of a field testing of the GAPA monitoring system with selected stakeholders from different administrative levels, and development of standard reports based on GAPA methodology.	December 2017	MPA
						1.3.4.3. Training of stakeholders at the central, regional and local level to work on the GAPA monitoring system.	June 2018	MPA
1.3.5. Rationalisation and industrialisation of state information infrastructure and easier access to services provided by public administration	CSR4: Reducing the administrative burden on companies	Establishment of the Shared Services Centre as a single strategic place for managing and coordinating the development of state IT and rationalisation of the state IT expenditure through the supervision of spending of budget resources. Establishment of single administrative places as physical and digital portals, which will facilitate access to public administration services, as the information and services of various public administration bodies will be available to users in one place.	The following will be provided: sharing of services, hardware, licenses and software based on “cloud” computing paradigms; to all public administration bodies the ability to use shared, reliable and scalable information and communication infrastructures based on cloud computing paradigms and the ability	HRK 300 million (85% ERDF, 15% national co-financing).	National Information Infrastructure Act; Regulation on the organisational and technical standards for connecting to the national information infrastructure	1.3.5.1. Establishment of Shared Services Centre to full functionality.	March 2018	MPA



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			to use reliable storage for own computer and communication equipment in the Shared Services Centre; and availability of advisory services through the Shared Services Centre, as an aid in the development and implementation of new technological solutions. Establishment of single administrative sites will facilitate access to public administration. Citizens and entrepreneurs will use computerised services through platforms e-Citizens or e-Business system.	HRK 113.84 million (85% ESF, 15% national co-financing). Initially the cost will increase because the state administration will establish unified administrative spots. As the single administrative spots take up their work, organisation will be transformed and the cost will be reduced.		1.3.5.2. Analysis of information, legal and physical infrastructure to establish a single administrative spot.	March 2018	MPA
<b>1.4. Removal of institutional, organisational and functional fragmentation in public administration</b>								
1.4.1. Overall normative organisation of state administration and its operations, and rationalisation of the system of legal entities with agency type public authority	CSR3: Reducing the fragmentation and improving the functional allocation of competencies in public administration to improve efficiency and reduce territorial disparities in the provision of public services by the end of 2016.	Performance of administrative functions and tasks of state administration will be regulated, criteria for transfer of first-instance tasks to public administration offices will be determined, as well as criteria for transfer of other tasks to ULRSGs and legal persons with public authorities. The problem of institutional, organisational and functional fragmentation and complexity will be solved by: regulating the status of legal entities with public authority of the agency type, their role in the public administration system, organisation, management, accountability, supervision,	Created conditions for a comprehensive and systematic transfer of first instance administrative and inspection activities from the ministries to state administration offices in counties and legal entities with public authority. Defining criteria for the establishment and operation of agencies to be used for further rationalisation and preventing unnecessary	Statutory changes and reduction of expenditures will bring annual savings in the budget of about HRK 10 million.	State Administration Act	1.4.1.1. Drafting proposals of the State Administration Act and its adoption.	September 2017	MPA
					State Agencies Act	1.4.1.2. Drafting proposal of the Act that uniformly regulates the system of legal entities with public authority of the agency type and its adoption.	September 2017	MPA
						1.4.1.3. Analysis of the compliance of legal entities with public authority of the agency type with the statutory criteria and standards.	October 2017	MPA



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		sources of funding, legal status of employees, and other important questions for their work.	establishment of new agencies in the future. Reducing the public administration fragmentation (reducing the number of agencies by 20%) and improving operational efficiency of agencies and other legal entities with public authority.		Conclusion of the Government of the Republic of Croatia on the Adoption of the Plan for Rationalisation of Agencies	1.4.1.4. Adoption of the Plan for Rationalisation of Agencies in accordance with the results of the conducted analysis.	December 2017	MPA
					Amendments to regulations establishing the agencies and other legal entities	1.4.1.5. Amendments to the regulations on the organisation and scope of work of agencies in accordance with the Rationalisation Plan.	June 2018	MPA
1.4.2. Rationalisation of first-instance bodies and SAB's regional units	CSR3: Reducing the fragmentation and improving the functional allocation of competencies in public administration to improve efficiency and reduce territorial disparities in the provision of public services by the end of 2016.	The structure of first-instance tasks performed by state administration offices, their branch offices and regional units, as well as branch offices of central SABs is currently fragmented and not rational. State administration offices will be consolidated as basic and multifunctional bodies for performing first-instance tasks of the state administration by integrating specific regional units and branch offices of central administration offices in order to better organise the aforementioned activities and achieve a more streamlined utilisation of human resources, perform tasks more efficiently and rationalise costs of internal administrative functions.	The merger of regional units will reduce the state administration fragmentation (reduction of regional units by 20%) and ensure a quicker and more efficient treatment of citizens and entrepreneurs by the state.	The measure is of normative nature.	Conclusion of the Government of the Republic of Croatia on the Plan for Rationalisation of Regional Units of Central SABs	1.4.2.1. Adoption of the Plan for Rationalisation of Regional Units of Central SABs.	December 2017	MPA
					Amendments to the regulations on the organisation and scope of work of SABs	1.4.2.2. Amendments to the regulations in accordance with the Plan for Rationalisation of Regional Units.	June 2018	MPA
1.4.3. Improving the legality of activities performed by bodies governed by public law by ensuring an efficient, quality and timely administrative inspection	CSR3: Reducing the fragmentation and improving the functional allocation of competencies in public administration to improve efficiency and reduce territorial disparities in the provision of public services by the end	Transfer of first-instance inspections of ULRSGs to state administration offices in counties will be governed by the new Administrative Inspection Act.	Effective, timely and economical performance of administrative inspection work and uniformity of inspection procedures will be ensured.	The measure is of normative nature.	Administrative Inspection Act	1.4.3.1. Drafting proposals of the Administrative Inspection Act and its adoption.	October 2018	MPA

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	of 2016.							
1.4.4. Establishing the model of functional and fiscal decentralisation	CSR3: Reducing the fragmentation and improving the functional allocation of competencies in public administration to improve efficiency and reduce territorial disparities in the provision of public services by the end of 2016.	A proposal for a model of sustainable functional and fiscal decentralisation will be developed on the basis of criteria for a balanced and high quality public service delivery in local and regional self-government because currently limited capacities of numerous self-governing units and their inconsistencies result in drastic differences in number and quality of public services, which pose an obstacle to further decentralisation.	Effective implementation of public functionalities under the jurisdiction of local self-governments will be ensured, as well as the quality, speed and availability of public services provided by local self-governments to citizens and the economy.	Fiscal impact assessment is only possible after the model of functional and fiscal decentralisation has been established.	Conclusion of the Government of the Republic of Croatia	1.4.4.1. Analysis of indicators for evaluation of capacities of ULRSGs.	December 2017	MPA
						1.4.4.2. Drafting of the model of functional and fiscal decentralisation.	March 2018	MPA
		A new model for financing ULRSGs will be created with a view to simplify and improve the existing financing system. For the purpose of developing a new model of the ULRSG financing system, the Commission will: analyse the existing income tax revenue allocation system and the system for financing decentralised functions along with the associated regulatory legal framework; analyse the existing system for allocation of resources from the state budget to ULRSGs, allocations made by the MF and the regulatory legal framework; create simulations of the proposed distribution	Establishment of a simpler and more transparent income tax revenue allocation system and system for financing decentralised functions and mitigation of inequality between fiscal capacities of ULRSGs.	Fiscal impact will be defined after proper implementation of the analysis and simulations.	The new Act on Financing of ULRSG	1.4.4.3. Analysis of the existing income tax revenue allocation system and the system for financing decentralised functions, as well allocation of resources from the state budget to ULRSGs, the legal framework governing the said systems and the implementation of relevant simulations.	May 2017	MF
						1.4.4.4. Proposal of the new model for financing ULRSGs.	June 2017	MF (MRDEUF)



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		of income tax revenue, including dedicated revenues for the financing of decentralised functions; create simulations of the proposed allocation with regard to fiscal equalisation, and develop a draft of the new Act on Financing of ULRSG.				1.4.4.5. Adoption of the new Act on Financing of ULRSG.	September 2017	MF
<b>1.5. Improving the efficiency of the judicial system</b>								
1.5.1. Reducing the duration of court proceedings and number of pending cases	CSR5: Taking measures to improve the quality and efficiency of the judicial system in commercial and administrative courts.	Functional merger of misdemeanour courts with municipal courts will be conducted, thus achieving a uniform burden of cases in the first-instance courts, which will lead to a reduction in the number of unresolved cases and a reduction in the length of court proceedings. The possibility of reorganising the second-instance court system will also be taken into consideration in order to improve the efficiency and uniformity of judicial practice. Authorities and powers granted to court and state attorney advisors in specific case types will be redefined in order to enable the judicial officials to solve the most complex cases. The status of court and state attorney advisors will be regulated for the purpose of their professional development and career advancement opportunities.	The efficiency of the judicial system will be improved by equal burden of cases and relieving judicial officials from performing administrative tasks.	The measure is of normative and analytical nature.	Act on Areas and Seats of Courts	1.5.1.1. Analysis of functional merger of misdemeanour courts with municipal courts.	May 2017	MJ
					Courts Act	1.5.1.2. Adoption of the Act on Areas and Seats of Courts.	September 2017	MJ
						1.5.1.3. Functional merger of courts.	December 2017	MJ
						1.5.1.4. Analysis of the reorganisation of the second-instance court system.	May 2017	MJ
					Act on State Attorney's Office	1.5.1.5. Adoption of the Courts Act.	September 2017	MJ
						1.5.1.6. Adoption of the Act on State Attorney's Office.	September 2017	MJ
1.5.2. Improving work organisation and management of judicial bodies	CSR5: Taking measures to improve the quality and efficiency of the judicial system in commercial and administrative courts.	The new Courts Act will modernise the court management system by introducing a new governing function - the Director of Judicial Administration. A new mandatory education will be implemented for newly appointed court presidents, as well as mandatory creation of activity plans and reports on the implementation of such activity plans. Introduction of the Director of Judicial Administration function will integrate and optimise court operations,	The efficiency of the judicial system will be improved by reducing the time and cost of processing court cases.	There will be no employment costs in 2017. Salaries will be planned in the budget for 2018. The gross salary estimate (without years of employment) amounts to approximately HRK 224,783.88 for each of the foreseen 15	Regulation on the Internal Organisation of MJ	1.5.2.1. Adoption of the Regulation on the internal organisation of MJ for the purpose of introducing the position of the Director of Judicial Administration.	May 2017	MJ
					Ordinance on internal order of MP	1.5.2.2. Adoption of the Ordinance on internal order of MP to define conditions for performing jobs on the function of the Director of	June 2017	MJ





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		unburden court presidents from tasks that do not require legal, but organisational, financial or managerial knowledge and experience. The aforementioned changes will result in savings and more rational management of resources needed for judicial bodies. Various standards and parameters for measuring and reporting on key processes in judicial bodies will also be defined.		directors. The total gross amount for salaries of 15 directors is HRK 3,371,758.20 (excluding transport).		Judicial Administration.		
					Legal basis will be defined by the Courts Act and the Act on State Attorney's Office.	1.5.2.3. Adoption of the Ordinance on judicial statistics.	December 2017	MJ
						1.5.2.4. Development of reporting tools for heads of judicial bodies (dashboard).	December 2017	MJ
1.5.3. Strengthening professionalism in the judicial system	CSR5: Taking measures to improve the quality and efficiency of the judicial system in commercial and administrative courts.	A more effective and fairer procedure for evaluation of judges and determination of fulfilment of judicial obligations will be introduced, the procedure for appointing and dismissing judges and deputy state attorneys and heads of judicial bodies will be simplified and shortened. The work of the National Judicial Council and the State Attorney's Council will be professionalised. The mechanisms for defining and implementing targeted training will be improved, and the organisation and scope of work of the Judicial Academy will be reorganised. A legal framework for assessing the performance and supervising the expertise and responsibility of permanent court expert witnesses, assessors and interpreters that will ensure their uniform performance, compliant with the rules of profession and specialisation will be introduced in order to achieve law uniformity and speed up court proceedings.	Improving the quality of the judicial system through a more effective and fairer procedure for appointing and evaluation of judicial officials. Improving the professionalism and expertise in the judiciary will increase the quality of the judicial system and ensure the legal security of investors.	The measure is of normative nature.	State Judiciary Council Act	1.5.3.1. Adoption of the State Judiciary Council Act.	September 2017	MJ
					State Attorney's Council Act	1.5.3.2. Adoption of the State Attorney's Council Act.	September 2017	MJ
					Judicial Academy Act	1.5.3.3. Adoption of the Judicial Academy Act.	March 2018	MJ
					Act on Permanent Judicial Experts, Assessors and Interpreters	1.5.3.4. Adoption of the Act on Permanent Judicial Experts, Assessors and Interpreters.	September 2017	MJ
1.5.4. Strengthening legal certainty	CSR5: Taking measures to improve the quality and efficiency of the judicial system in commercial and	Monitoring of the efficiency of pre-bankruptcy and bankruptcy proceedings and the effects of the Bankruptcy Act and the Consumer Bankruptcy Act will continue through the work of already established working groups performing	Analysis of statistical data and analysis of court proceedings and complaints by parties and other participants in bankruptcy proceedings	Costs are possible in order to upgrade the existing IT systems, which can be implemented within other interventions		1.5.4.1. Systematic monitoring and analysis of the Bankruptcy Act and the Consumer Bankruptcy Act through the work of already established working	continuous	MJ



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	administrative courts.	quarterly collection and analysis of statistical data and analysis of court practice and information submitted by bankruptcy trustees, creditors and debtors. Improvement of litigation proceedings is planned by relieving commercial courts, redefining legal institutions that slow down the process, increasing the process discipline, introducing a pilot dispute, increasing the quality of decision-making and harmonisation of the court practice by revised audit rules and promoting peaceful resolution of disputes. The reform will modernise the extra-judicial procedure and in the preparation of the new Extra-Judicial Procedure Act special attention will be paid to the general rules of the extra-judicial procedure as they should serve as general process standards and guidelines for such procedures.	are the basis for further improvements of the system. Uniform case law will increase the quality of the judicial system and ensure legal security of investors.	and/or IT system maintenance costs.		groups.		
					Act on the Amendments to the Civil Procedure Act	1.5.4.2. Adoption of the Act on the Amendments to the Civil Procedure Act.	December 2018	MJ
					Extra-Judicial Procedure Act	1.5.4.3. Adoption of the Extra-Judicial Procedure Act.	December 2018	MJ
1.5.5. Further development of information and communication technologies in the judiciary system	CSR5: Taking measures to improve the quality and efficiency of the judicial system in commercial and administrative courts.	The implementation of the e-File system at the Supreme Court of the Republic of Croatia will be completed, enabling electronic business within the Court, as well as electronic communication with all other courts using the e-File system. The introduction of the e-File system will ensure an objective and even distribution of cases to judges of the Supreme Court of the Republic of Croatia. The preparation of the Project Upgrading IT Systems in Courts will be initiated. This measure will enable electronic linking and electronic communication between judicial bodies and citizens, as well as other participants in judicial proceedings, which will significantly shorten court proceedings. Electronic record keeping will be introduced in certain judicial bodies which will significantly shorten the duration of	Quicker judicial proceedings will create an environment that encourages development.	In 2017 - HRK 455,920.		1.5.5.1. Application upgrade and education of users working in e-File in the Criminal Department of the Supreme Court of the Republic of Croatia.	April 2017	MJ
				In 2017 - HRK 175,000.		1.5.5.2. Defining specifications and data migration for the Civil Department of the Supreme Court of the Republic of Croatia.	October 2017	MJ
				In 2017 - HRK 41,250.		1.5.5.3. Education of users in the Civil Department of the Supreme Court of the Republic of Croatia.	November 2017	MJ
				In 2017 - HRK 287,500.		1.5.5.4. Production work in the Civil Department of the Supreme Court of the Republic of Croatia.	January 2018	MJ

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		respective proceedings and enable the redistribution of administrative capacities. New judiciary e-services for citizens will also be developed.		In 2017 - HRK 156,250; in 2018 - HRK 12,500,000 (85% ESF, 15% national co-financing); in 2019 - HRK 6,250,000 (85% ESF, 15% national co-financing).		1.5.5.5. Upgrading IT systems in Courts.	December 2017	MJ
				In 2017 - HRK 8,032,320 (85% ESF, 15% national co-financing); in 2018 - HRK 8,032,320 (85% ESF, 15% national co-financing).		1.5.5.6. Purchase of the system for converting speech to text.	December 2017	MJ
				In 2017 - HRK 703,680.		1.5.5.7. Development of new e-Services (issuance of documents regarding pending criminal proceedings and certificates from criminal and misdemeanour records via the e-Citizens system).	December 2017	MJ
2. INCREASING EMPLOYABILITY AND ALIGNING EDUCATION WITH LABOUR MARKET NEEDS								
2.1. Implementation of education, lifelong learning and labour market integration programmes								
2.1.1. Education of unemployed persons to perform deficit jobs in the labour market	CSR2: Providing appropriate training and retraining to increase employability of the working age population, focusing on low skilled workers and long-term	Education of unemployed persons will continue with the aim of increasing the employability of unemployed persons and reducing supply and demand disproportion at all levels of the labour market.	Segmentation and increased competencies and qualifications of unemployed persons in accordance with the needs of employers and labour market trends.	Total funds for implementation of active employment policy measures under the jurisdiction of the CES amount to HRK 1.5 billion (for education measures of unemployed HRK 135,082,741).	Act on Employment Mediation and Unemployment Rights; Employment Promotion Act	2.1.1.1. Adoption of the Terms and Conditions of use of funds for the implementation of Active Employment Policy Measures from the jurisdiction of CES in 2017.	March 2017	MLPS
						2.1.1.2. Adoption of the Plan for the Education of Unemployed Persons for 2017.	April 2017	MLPS



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	unemployed.					2.1.1.3. Increase the number of unemployed persons covered by active employment policy measures related to education.	continuous	MLPS
2.1.2. Raising the quality of adult education systems and increasing the availability of education programmes to adults	CSR2: Providing appropriate training and retraining to increase employability of the working age population, focusing on low skilled workers and long-term unemployed.	In order to increase the quality of the adult education system and align it with the new paradigm introduced by the CROQF for developing qualifications and programmes, the newly adopted Adult Education Act will address the disadvantages of the existing adult education system, align the adult education system with the CROQF and competent legislative and normative solutions in regular vocational education, and create necessary preconditions for the implementation of the Strategy for Education, Science and Technology, with the emphasis on encouraging the development of lifelong learning systems. The quality of educational programmes that raise basic and professional competencies of unemployed persons will be improved in order to increase their competitiveness in the labour market.	Improved adult education system and aligned adult education system with CROQF.	The measure is of normative nature.	Adult Education Act and regulations	2.1.2.1. Adoption of the new Adult Education Act.	September 2017	MSE
			Increased number of participants in lifelong adult education.	The estimated value of the project to be financed from the ESF is about HRK 60 million.		2.1.2.2. Adoption of regulations that will result from the new Adult Education Act.	September 2018	MSE
						2.1.2.3. Implementation of the project Supporting the Education of Adult Learners by including them in educational priority programmes.	December 2017	MSE
						2.1.2.4. Implementation of the project Improving Literacy – the foundation of lifelong learning.	continuous	MSE
2.2. Harmonisation of educational programmes with labour market needs at the level of vocational and higher education								
2.2.1. Implementation of the Croatian Qualification Framework (CROQF)		The establishment of the institutional framework for the implementation of the CROQF will be continued by encouraging the development of the occupational standards and qualifications standards on which study and education programmes will be based and improving the alignment of educational activities with labour market needs.	Institutional prerequisites will be provided to align study and educational programmes with labour market needs.	Financing of planned activities is provided from ESF funds through the project “Establishment and Management of CROQF Register as Support to Sector Councils and Other Stakeholders in the Implementation of CROQF” for which HRK 10.81 million was	Guidelines for the development and evaluation of occupational standards adopted on the basis of the Croatian Qualifications Framework Act and Ordinance on the CROQF Register.	2.2.1.1. Drafting and adapting occupational and qualifications standards.	April 2018	MSE
						2.2.1.2. Support to the development of the CROQF in the field of labour market and education.	June 2017	MLPS
						2.2.1.3. Development of occupational standards and implementation of CROQF.	June 2017	MLPS
					Decisions of the Minister on the appointment of sector	2.2.1.4. Appointing the remaining 17 sector	April 2018	MSE



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				secured in the period from July 2016 to June 2018.	councils	councils.		
						2.2.1.5. Educating sector councils on the procedures for evaluation of occupational standards and qualifications standards and entry into the CROQF Register.	continuous	MSE
						2.2.1.6. Evaluation of occupational standards and qualification standards by sector councils.	April 2018	MSE
					Decisions of the Minister on Entry of qualification standards in the CROQF Register.	2.2.1.7. Entry of qualification standards in the CROQF Register.	April 2018	MSE
						2.2.1.8. Harmonisation of educational/study programmes with qualification standards entered into the CROQF Register.	April 2018	MSE
						2.2.1.9. Analysis of the institutional framework and system functionality.	April 2018	MSE
2.2.2. Improving the relevance of vocational education and training in relation to the labour market and its quality		The aim of this measure is to increase the quality and effectiveness of vocational education and training that will be attractive, innovative, relevant, referenced to the labour market, which will enable the acquisition of competencies for personal and professional development, as well as continuing education and lifelong learning.	Improved vocational education system.	The estimated value of the project to be financed from the ESF is about HRK 20 million (development of the National Curriculum for Vocational Education and all projects for improvement of the vocational education are financed from these funds).	National Curriculum for Vocational Education	2.2.2.1. Adoption of the National Curriculum for Vocational Education.	September 2017	MSE
					Act on the Amendments to the Vocational Education Act	2.2.2.2. Adoption of the Act on the Amendments to the Vocational Education Act.	September 2017	MSE
						2.2.2.3. Development of methodology for drafting vocational curricula.	September 2017	MSE
					Guidelines for rationalisation/optimisation of the network of vocational schools	2.2.2.4. Drafting of Guidelines for rationalisation/optimisation of the network of vocational schools.	December 2017	MSE



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						2.2.2.5. Drafting proposals of a model of vertical and horizontal mobility of students in vocational schools.	June 2017	MSE
						2.2.2.6. Identification of criteria for the establishment of regional competency centres (based on the analysis of the state, sector profiles, strategic guidelines and other relevant bases) and spatial distribution by stages of establishment.	June 2017	MSE
						2.2.2.7. Creating a model of competitions and contests in most sectors/subsectors based on WorldSkills Europe competition.	continuous	MSE
						2.2.2.8. Developing recommendations for strengthening the international dimension in vocational education and training.	December 2017	MSE
						2.2.2.9. Promoting ECVET and providing preconditions for applying ECVET in vocational schools.	continuous	MSE
2.2.3. Increasing the representation of traineeship in higher education		Within the OP “Effective Human Resources 2014-2020”, funds are provided for the organisation and implementation of professional practice. Title of the call is “Development and improvement of the learning model through work and implementation of an improved model of professional practice in higher education”. Projects will be	Greater representation of traineeship in higher education.	The total value of the call amounts to HRK 48 million (EU and national co-financing).		2.2.3.1. Announcement of the call for applicants for the project of conducting professional practice.	November 2017	MSE
						2.2.3.2. Informative briefings for applicants for the project of conducting professional practice.	December 2017; January 2018	MSE

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		implemented by higher education institutions.						
2.2.4. Improving the quality assurance system in higher education		Adoption of the new Act on Quality Assurance in Science and Higher Education to improve quality assurance procedures.	Quality assurance procedures in line with the CRQF methodology and with the new European standards and guidelines for quality assurance in higher education. Enabled cross-border provision of higher education services in accordance with the Services Directive (2006/123/EC) and the Services Act.	The measure is of normative nature.	Decision of the Minister on Appointing the Commission for drafting proposal of the Act on Quality Assurance in Science and Higher Education	2.2.4.1. Appointment of the Commission for drafting proposal of the Act on Quality Assurance in Science and Higher Education.	April 2017	MSE
					Act on Quality Assurance in Science and Higher Education	2.2.4.2. Adoption of the Act on Quality Assurance in Science and Higher Education.	December 2017	MSE
2.2.5. Development of the validation of non-formal and informal learning system		By means of shared approach, strategic guidelines for the development of non-formal and informal learning validation systems will be agreed upon, and the adoption of the Ordinance on recognition and validation of non-formal and informal learning will define the rights of individuals regarding validation and recognition of non-formal and informal knowledge.	The long-term objective is to enable individuals validation and recognition of previously acquired knowledge and skills in accordance with the qualification standards of the CROQF Register. Agreed strategic guidelines and institutional responsibilities in system establishment.	The measure is of normative nature.	Strategic Plan for the development of the validation of non-formal and informal learning system (VNFIL)	2.2.5.1. Adoption of the Strategic Plan for the development of the validation of non-formal and informal learning system (VNFIL).	December 2017	MSE, National Council for Human Resources Development
					Ordinance on recognition and validation of non-formal and informal learning	2.2.5.2. Adoption of the Ordinance on recognition and validation of non-formal and informal learning.	December 2017	MSE
2.3. Implementation of the education reform								
2.3.1. Enhancing and improving the system at the level of early, preschool, primary and secondary education		The measure includes: (1) application of the curricular paradigm according to educational outcomes and encouragement of teaching and learning methods that enable the active role of students in the learning/teaching process, the application of innovative subject/inter-subject/modular curricula	Established foundations for continuous improvement of the system at the level of early, preschool, primary and secondary education.	Total funds for further implementation of the reform activities amount to HRK 9.49 million. ETТА plans HRK 856,488 for professional training of the educational staff.	Primary and Secondary Education Act, Vocational Education Act	2.3.1.1. Drafting curricular documents.	August 2017 - March 2018	MSE, ETТА, AVETAE, NCEEE
						2.3.1.2. Drafting of vocational curricula for defined occupational standards and qualifications standards.	December 2017	MSE, ETТА, AVETAE, NCEEE





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		for primary and secondary education and curricula for acquiring vocational qualifications; (2) development of vocational standards and qualification standards by applying CROQF, and accordingly development and innovation of vocational curricula; (3) establishment of a single quality system at all levels of education, taking into account the results of national examinations and the results of external evaluations, in particular in relation to CROQF; (4) provision of professional prerequisites for the implementation of curricular reform through programmes of permanent professional development of teachers/professors, expert associates and principals; (5) provision of professional materials for educators, teachers/professors, expert associates and principals related to the curricular approach; (6) provision of state pedagogical standards and appropriate equipment necessary for the implementation of the enhancement and improvement of learning outcomes and application of innovative curricula/modules (STEM equipment of classrooms/cabinets, didactic equipment); (7) enabling appropriate information to professionals and the public about the objectives of the education reform in early, preschool, primary and secondary education; (8) optimisation of the network of schools and programmes.				2.3.1.3. Development of methodologies and technologies for quality monitoring and clear quality indicators.	October 2017	MSE, ETTA, AVETAE, NCEEE
						2.3.1.4. Professional training for the implementation of reform measures and activities.	during 2017 and the first half of 2018	MSE, ETTA, AVETAE
						2.3.1.5. Preparation of professional work materials for educators, teachers/professors, professional associates and principals involved in the implementation of the curricular reform.	during 2017 and the first half of 2018	MSE, ETTA, AVETAE, NCEEE
						2.3.1.6. Granting of aid for ensuring state pedagogical standards and appropriate equipment needed to implement the enhancement and improvement of learning outcomes, and the application of innovative curricula/modules.	November 2017	MSE
						2.3.1.7. Implementation of promotional activities related to informing professionals and interested public about reform activities at the level of early, preschool, primary and secondary education.	during 2017 and the first half of 2018	MSE
						2.3.1.8. Drafting proposal of the network of schools and programmes.	December 2017 and the first half of 2018	MSE



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<b>3. SUSTAINABILITY OF PUBLIC FINANCES</b>								
<b>3.1. Strengthening the framework for public financial management and implementation of fiscal consolidation</b>								
3.1.1. Establishment of the system for strategic planning and development management		The measure includes improved coordination, planning and follow-up of strategic document implementation, setting a clear link between strategic documents and the State Budget, as well as enhancing the analytical approach that connects the implementation of public policy measures with performance indicators that will help evaluate the effect of implementation of public policy measures on economic indicators and development indicators.	Defined rules and procedures for strategic planning, defined system of documents and prescribed responsibility of institutions for design and implementation of the said documents. Defined manner of reporting and evaluating national strategic documents, which will, together with related regulations, ensure compliance and co-ordination of development decisions made by all SABs and ULRSG.	Drafting of the Act will not have fiscal impact.	Strategic Planning and Development Management System Act	3.1.1.1. Prescribing rules and procedures for drafting and monitoring of the implementation of strategic documents.	December 2017	MRDEUF (MF and SAB)
			Improved methodology for the development of strategic documents and mechanisms for involving the public concerned. Improved methodology includes the segment of elaboration of indicators and methodology for selection of indicators, i.e.	The total fiscal impact of this activity is expected in the amount of HRK 7,812,000 of expenditures (OP "Effective Human Resources 2014-2020").	By-laws related to the elaboration of the methodology for the preparation of strategic documents.	3.1.1.2. Improving the methodology for the development of strategic documents and mechanisms for involving the public concerned.	December 2018	MRDEUF (MF and SAB)



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			framework for monitoring and hierarchy of indicators.					
			Integrated strategic and budget planning, which will facilitate the development of strategic documents (short, medium and long-term), since they should contain relevant objectives, performance indicators and the necessary sources of financing.	The total fiscal impact of this activity is expected in the amount of HRK 9,642,251 of expenditures (OP "Effective Human Resources 2014-2020").	Strategic Planning and Development Management System Act and related by-laws	3.1.1.3. Development and implementation of IT systems for strategic planning and implementation monitoring.	March 2019	MRDEUF (MF and SAB)
			Conducted training for senior officers, which will facilitate the application of prescribed guidelines and greater quality in drafting and implementation of strategic documents.	The total fiscal impact of this activity is expected in the amount of HRK 325,000 of expenditures (OP "Effective Human Resources 2014-2020").	Strategic Planning and Development Management System Act and related by-laws	3.1.1.4. Designing and implementation of training for senior officers responsible for development and implementation of strategic documents.	December 2020	MRDEUF (MF and SAB)
			Established teams/units for strategic planning in SAB ensure a quality and long-term sustainable institutional framework for strategic planning that will contribute to the optimal functioning of all components in the strategic planning system.	Fiscal impact of this activity is not expected.	Strategic Planning and Development Management System Act; Regulation on the internal organisation of SAB; Ordinance on the internal order of SAB	3.1.1.5. Establishment of teams/units for strategic planning in SAB (independent organisational units or planning function assigned to the cabinet of the head of the body).	December 2018	MRDEUF (MF and SAB)
			Drafting of the National Development Strategy, as a main document, defined national development priorities for a ten-year period, which is the basis for the development of other medium-term national strategies and	The total fiscal impact of this activity is expected in the amount of HRK 6,990,000 of expenditures (OP "Effective Human Resources 2014-2020").	National Development Strategy of the Republic of Croatia 2021-2030	3.1.1.6. Drafting of a main document that will define the national development priorities, which will be the basis for the development of medium-term (multi) sectoral strategies and the use of EU funds in the next financial perspective.	October 2019	MRDEUF (MF and SAB)

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			the use of EU funds in the next financial perspective.					
3.1.2. Improving the fiscal framework	CSR 1: Strengthening the numerical fiscal rules, and the independence and mandate of the Fiscal Policy Committee by September 2016.	Adoption of the new Fiscal Responsibility Act will strengthen the independence of the Fiscal Policy Committee and ensure complete consistency and efficient implementation of national fiscal rules with the relevant EU framework. Adoption of the Amendments to the Budget Act, which introduce provisions to create the foundation for better macroeconomic and budgetary projections, as well as further alignment of strategic planning dynamics with the European Semester cycle, will improve the quality of annual and multi-annual budget planning and execution. Supervision of public companies will be strengthened in order to improve the monitoring of their business and fiscal statistics in accordance with ESA 2010 methodology.	Objective and transparent macro-fiscal projections and monitoring of fiscal rules, which will contribute to overall sustainability of public finances. Improved expenditure control, which will contribute to reduction of the budget deficit. Improved budget planning. Improved fiscal statistics.	The measure is of normative nature.	Fiscal Responsibility Act	3.1.2.1. Adoption of the Fiscal Responsibility Act.	September 2017	MF
					Act on the Amendments to the Budget Act	3.1.2.2. Adoption of the Act on the Amendments to the Budget Act.	December 2017	MF
						3.1.2.3. Implementation of preparatory actions and creation of binding tables for conversion of records of business events according to the rules of entrepreneurial accounting in the budgetary accounting for certain extra-budgetary users.	December 2017	MF
3.1.3. Improving the public debt management	CSR1: Strengthening the public debt management framework. Adopting and implementing a public debt management strategy for the period 2016-2018.	According to the current Regulation on the internal organisation of the MF, public debt management tasks are within the scope of the Public Debt Management Sector as an organisational unit within the State Treasury. Since institutional and administrative capacities should adequately monitor public debt management objectives defined in the Public Debt Management Strategy 2017-2019, it is necessary to organise operations of this sector at the level of administration by modification of the internal organisation of MF.	Strengthened organisational unit for public debt management of MF through employment of 8 persons.	Indicative calculation of fiscal impact of the cost of salaries for 8 new officials in the Public Debt Administration amounts to HRK 731,718.98.	Regulation on the internal organisation of MF	3.1.3.1. Adoption of the Regulation on the internal organisation of MF based on which the public debt management will be regulated at the level of independent administration.	September 2017	MF
						3.1.3.2. Employment of additional 8 persons in the Public Debt Administration.	June 2017	MF
3.1.4. Ensuring stricter implementation of the		The new State Audit Office Act will be adopted in order to introduce misdemeanour sanctions in cases where subjects of audit fail to comply with	Legal, dedicated and purposeful use of budgetary funds. Effective and efficient functioning	The measure is of normative nature.	State Audit Office Act	3.1.4.1. Adoption of the new State Audit Office Act.	September 2017	MF

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recommendations of the state audit		recommendations of the State Audit Office.	of financial management and control system.					
3.1.5. Further development of the unified public procurement system		In the next period, the development of a unified public procurement system will continue in the sense of expanding the number of institutions for which a joint procurement process is being implemented through SOCPP. The Decision of the Government of the Republic of Croatia on expanding the number of users of central public procurement is planned in the following procurement categories: procurement of postal services, procurement of electricity and procurement of electronic communication services in mobile network and equipment for service use to all public contracting entities who are budget users.	Expanding the circle of users from currently estimated 570 to all public contractors who are budget users, will have a positive direct fiscal impact in terms of additional savings, i.e. reduction of expenditures of users of unified public procurement, but also indirect fiscal impact in terms of reducing administrative burden on users.	The expected level of savings is within the range of 10-15% of the procurement value.	The Government's Decision on expanding the number of users of central public procurement	3.1.5.1. Draft proposal of the Decision on expanding the number of users of central public procurement and its adoption.	June 2017	SOCPP
3.1.6. Increasing the efficiency of the implementation of the grant scheme under ESIF operational programmes		The purpose of this measure is to provide users with a faster and simpler access to grants under the ESIF operational programmes, and to remove obstacles to timely preparation of projects in order to create the appropriate stock of projects that are ready for ESIF funding.	By simplifying the grant award procedure, administrative burdens will be reduced both for users and for the system, and the absorption of ESIF will simultaneously be improved. The application process will speed up and implementation and monitoring will be facilitated by enabling electronic communication between the	Total planned expenditures are about HRK 6.35 million, and expenditures planned for 2017 amount to HRK 4.22 million.	Call Documentation for grant award and Common National Rules	3.1.6.1. Simplification of grant award procedures for users.	December 2017	MRDEUF (MLPS)
						3.1.6.2. Operationalisation of upgraded IT system for business process support (MIS System).	December 2017	MRDEUF
						3.1.6.3. Establishing a mechanism for exchanging information between competent authorities for addressing applicants' complaints and managing irregularities.	July 2017	MRDEUF (MLPS)



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			applicant/user and the body in the management system, as well as by automation wherever possible. Sharing of practices in dealing with complaints and irregularities management will equalise treatment by the body in grant award procedure and monitoring of the implementation of project activities, as well as recognition of irregularities and determination of financial corrections to be applied. Recommendations will be provided to speed up the procedures for preparation and implementation of EU projects, as well as advisory and technical support in identification, prioritisation, design, structuring and implementation of investment projects.		Memorandum of Understanding to establish cooperation with EIB within ESCU	3.1.6.4. Establishing a mechanism for technical assistance in the preparation of investment projects that have the potential to apply to EU funds and other EU instruments (ESIF, EFSI, CEF and other)	December 2017	MRDEUF (MEC, MCPP, MEE, SAB)
<b>3.2. Reduction of healthcare arrears and sustainability of the healthcare system</b>								
3.2.1. Functional integration of hospitals		The National Plan for the Development of Clinical Hospital Centres, Clinical Hospitals, Clinics and General Hospitals in the Republic of Croatia for the period 2017-2020 will be adopted, which will define hospital reconstruction and hospital functional integration. A plan for	Improving the quality of healthcare; greater availability of healthcare services; rational use of all resources of the hospital healthcare system (staff, equipment, space).	Savings on an annual level of about HRK 15 million.	The National Plan for the Development of Clinical Hospital Centres, Clinical Hospitals, Clinics and General Hospitals in the Republic of Croatia for the period 2017-2020	3.2.1.1. National Plan for Hospital Development 2017-2020 (framework for functional integration of hospitals).	September 2017	MH



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		reconstruction of the hospital system network and definition of hospital activities will also be developed.			Decision of the Minister on the Founding of the Commission	3.2.1.2. Adoption of the Decision on the establishment of the Commission for drafting proposals on functional integration.	April 2017	MH
					Agreement on Functional Hospital Integration	3.2.1.3. Creating a record of the state and drafting proposals of functional integration.	June 2017	MH
						3.2.1.4. Legal arrangement for the implementation of functional hospital integration.	December 2017	MH
3.2.2. Increasing the efficiency and quality of healthcare services		EU funds will provide construction and adaptation, equipping and putting into function of day care hospitals/one day surgery and unified emergency hospital admissions. The intention is to increase the profitability and sustainability of the health system in the Republic of Croatia by improving the efficiency and access to day care hospitals and surgeries by reducing the number of admissions to acute hospital departments by at least 10%. The procedure of making appointments and patient response via an SMS message will be simplified. Through increased control of founders by submitting regular monthly reports on financial results based on paid contributions, appropriate actions will be taken, and collection of receivables from patients who do not have supplementary health insurance for provision of hospital health services will be improved.	Raising the quality of services; reduction of waiting lists; reduction of length of hospitalisation; reducing duplication of appointments and procedures; a greater number of patients taken care of.	Reducing the number of acute beds while increasing the number of day care hospitals will contribute to financial savings of about 4%.	Grant Agreement	3.2.2.1. Equipping of day hospitals.	December 2018	MH
				Total savings of about HRK 15 million, and annually about HRK 5 million.	Fiscal Responsibility Act and other by-laws	3.2.2.2. Improving the billing of fees for provision of hospital health services through increased control by the founders.	December 2018	MH
				Total savings of about HRK 25 million, and annually about HRK 8 million.	Healthcare Act	3.2.2.3. Drafting a plan of providing additional services to increase hospital revenue.	December 2018	MH
				Total savings of about HRK 25 million, and annually about HRK 8 million.	Healthcare Act	3.2.2.4. Drafting a plan of providing additional services to increase hospital revenue.	December 2018	MH
3.2.3. Development and implementation of human resource management policy		Measures will be designed to stimulate the stay of young doctors in the Republic of Croatia and provide faster and easier access to specialisation, while EU Funds	Raising the quality of service provision. Reduction of unnecessary expenditures and financial	Total savings of about HRK 10 million.	Strategic Plan for Human Resources Development	3.2.3.1. Drafting measures to stimulate the stay of young doctors and easier obtaining of specialisations.	December 2018	MH





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in healthcare		will be used to finance the continuing professional development of medical doctors. The rationalisation of consumption will be ensured through controlling i.e. supervision of the scope and the quality of provision of services of all health entities, insisting on one-month reports and outcomes, regularly collecting data for the purpose of intensified control of health expenditures.	stability of the health system.	Total savings of about HRK 15 million, and annually about HRK 5 million.		3.2.3.2. Control of expenditures for the work of health workers (employment control, cost control and equalisation of coefficients) - all levels of hospitals.	December 2018	MH, CHIF
3.2.4. Rationalisation and reorganisation of non-medical services in hospitals		Preliminary analysis of costs of non-healthcare services, i.e. security services, laundry services, non-medical surface cleaning services, administrative and financial services, and technical services, was carried out across all hospitals. The data are supplemented by cost analysis prepared by the MF. Implementation of the reorganisation of non-health services aimed at rationalisation is planned in 2017.	Reduction of unnecessary expenditures, financial stability of the health system.	Savings in the amount of about HRK 40 million.	Croatian National Standard for cleaning of premises in hospital health institutions in the Republic of Croatia	3.2.3.3. Creating an option for reorganisation and rationalisation of non-clinical services.	May 2017	MH
					Croatian National Standard for washing and laundry services in hospital health institutions in the Republic of Croatia	3.2.3.4. Drafting proposal of a model for better management and organisation of non-health services.	June 2017	MH
					Guidelines for preventive maintenance of non-medical equipment at the institution level.	3.2.3.5. Development of an Action Plan for the implementation of non-health activities.	July 2017	MH
						3.2.3.6. Reorganisation of non-health activities.	December 2018	MH
3.2.5. Further implementation of stricter control of medicines, unified public procurement and computerisation of the system		It is necessary to establish regulations which will establish the definition of reference countries for determination of prices of medicines. According to the present rules, the procedure is carried out on the basis of the Ordinance, in which there are uncoordinated terms of the implementation of the procedure itself in relation to the possibility and deadlines for conducting appeals in relation to it. Continuous control of medicines consumption is planned, in particular control of expensive medicines (by UK model). A standardised process will be established for the introduction of	Financial stability of the health system; reduction of unnecessary expenditure; achieving cost savings on an annual basis, which should be invested in improving services and treatment of patients; increased efficiency; better data; reduction of job-matching; central control; the possibility of better healthcare management.	On an annual level savings of about HRK 120 million, and in total HRK 400 million.	Ordinance on measures and methods for determining wholesale prices of medicines and the method of reporting on wholesale prices	3.2.5.1. Determination of price calculation and price reduction	December 2017	MH
					Ordinance on measures and methods for determining wholesale prices of medicines and the method of reporting on wholesale prices	3.2.5.2. Placing new drugs on the lists.	continuous	MH
					Special financial agreements limiting the financial cost at the	3.2.5.3. Control of drug consumption and special control of very expensive	continuous	MH

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		innovative medicines. The first step of the process will be focused on the enhanced application of Health Technology Assessments, by which medical and economic justification of new therapies will be evaluated. The unified procurement of generic medicines is underway. With regard to the procurement of innovative and expensive medicines, an improvement plan is currently being developed. Further implementation of the common public procurement of consumable and embedded materials and medical equipment is planned to achieve savings as well as further computerisation of the healthcare system with a view to achieve better control of costs.			expense of CHIF	medicines.		
					Proposal of professional associations of the Croatian Medical Association, Professional Services of the Institute and the Commission for Medicines	3.2.5.4. Revision of guidelines/indications of medicines placed on the lists of institutes.	continuous	MH
				Achieving total savings over 3 years in the amount of about HRK 300 million, or about HRK 100 million annually.	Decision on the implementation of joint public procurement of generic, innovative and expensive medicines; Decision on the implementation of joint public procurement	3.2.5.5. Unified procurement of generic, innovative and expensive medicines, embedding and consumables and medical equipment for the purpose of system rationalisation.	continuous	MH
				Savings of about HRK 3 million are expected annually, and in total HRK 7 million.	Annex I to the Agreement on Cooperation to Encourage Application of Information and Communication Technology in the Health System in the Republic of Croatia; Action Plan e-Croatia 2020.	3.2.5.6. Development of HealthNet. 3.2.5.7. Development of e-services (e-CHIF; e-Medicines; introduction and upgrading of the payment system and measurement of hospital system efficiency; e-Guidelines, e-Hospital).	December 2018 December 2018	CIT, MH MH
3.2.6. Improving primary healthcare and palliative care		Adopting a strategic framework for the development of palliative care and establishing a system of outpatient palliative care. Within the OP “Competitiveness and Cohesion 2014-2020”, a Limited Call for submission of project proposals for grants was published under the title “Improving the access to PHC with emphasis on remote and deprived areas by investing in the needs of primary healthcare providers”. Eligible	Greater availability and quality of health services; more efficient and rational use of health resources; improving the access to PHC, which will reduce the number of referrals of PHC providers to hospitals by 15%, as PHC will provide a greater number of diagnostic and	Reduction of the PHC referrals to the secondary level of healthcare by 15%.	Strategic Plan for the Development of Palliative Care	3.2.6.1. Adopting a strategic framework for the development of palliative care and establishing a system of outpatient palliative care.	June 2017	MH
					Grant Agreement	3.2.6.2. Financing the specialist training of medical doctors in the PHC from EU funds.	December 2018	MH



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		counties as beneficiaries (18 of them - regions of I and II group by development index and islands) have HRK 171.8 million at their disposal for this purpose. Access to healthcare services will be improved in deprived and less attractive areas, and to vulnerable groups, by funding of specialist training of medical doctors from ESIF funds and by comprehensive and controlled system of continuous professional training of general/family medicine physicians to increase the knowledge and skills of general/family medicine practitioners.	therapeutic procedures; SHC and hospital health system relief.			3.2.6.3. Implementation of continuous education of health workers in PHC.	December 2018	MH
3.2.7. Increasing the number of supplementary health insurance beneficiaries		The objective is to increase the number of insured persons who pay a premium for supplementary health insurance policy.	Financial stability of the health system.	Additional revenues of about HRK 60 million are expected (HRK 10 million in the first year of implementation, HRK 20 million in the second year, HRK 30 million in the third year).	Decision of the Administrative Council of CHIF on the conduct of promotional activities	3.2.7.1. Promotion of supplementary health insurance through advertising activities in the media.	December 2018	CHIF
						3.2.7.2. Education of citizens on the importance of supplementary health insurance as part of healthcare through participation in public health events.	December 2018	CHIF
						3.2.7.3. Organisation of workshops for Regional Office/CHIF staff who work on supplementary health insurance jobs and communicate with insured persons.	December 2018	CHIF
3.3. Improving the efficiency of the social benefits system								
3.3.1. Demographic policy and stimulation of demographic renewal		In response to the unfavourable demographic situation, population policy measures will be implemented with the ultimate objective of increasing the birth rate, balancing the age structure and	Increasing the birth rate by providing minimum and raising existing living standards.		Act on Maternity and Parental Benefits	3.3.1.1. Increasing the amounts and limits of cash benefits from the Act on Maternity and Parental Benefits.	June 2017	MDFYSP (MLPS, MH, CHIF)



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		maintaining the spatial balance of the population in the direction of increasing the share of the younger population.						
3.3.2. Standardisation of criteria for certain social benefits	CSR2: Consolidating the benefits within the social protection system, including special regimes, by harmonising the eligibility criteria and integrating the management of such benefits, and allocating financial aid to those in greatest need.	In order to establish clear social and demographic policies, analysis of the social benefits system will be carried out with a focus on categorising the purpose of compensations, taking into account the strategic objective of demographic revitalisation of the Republic of Croatia. The objective is to target social benefits to the most needy and poorest groups by reducing the cumulation of rights by standardisation of entitlement criteria and improvement of the legislative framework governing the area of social benefits, including conceptual alignment. Normative solutions in the field of maternity and parental benefits will provide the prerequisites for increased financial support taking into account socially sensitive groups (unemployed parents, parents farmers, adoptive parents, etc.).	This will provide a fairer system of allocation of social benefits, better targeting of the most vulnerable groups of society and generally greater transparency of the social benefits system.	The measure is of normative and analytical nature.	Regulation on the internal organisation of MDFYSP	3.3.2.1. Establishment of the organisational structure of the management of integrated social benefit system in MDFYSP.	June 2017	MDFYSP
						3.3.2.2. Drafting of the Action Plan for consolidation of social protection for the period 2017-2020.	September 2017	MDFYSP
					MDFYSP Strategic Plan 2017-2019; Report on the “Structure of Fees, Expenditures and Beneficiaries of the Social Protection Programme in the Republic of Croatia”	3.3.2.3. Standardisation of the social protection programme at local and county levels and alignment with the ESSPROS methodology.	December 2017	MDFYSP (ULRSG)
						3.3.2.4. Establishing coordination in the social benefit system with ULRSGs.	June 2018	MDFYSP (ULRSG)
3.3.3. Integration of social benefits management	CSR2: Consolidating the benefits within the social protection system, including special regimes, by harmonising the eligibility criteria and integrating the	In order to establish better supervision of social protection benefits and the transparency of remuneration payments, coordination and exchange of data on the use of rights from the social welfare system with other systems will be established.	Simplifying the exercise of rights. Ensuring process standardisation. Ensuring real time checks of rights. Enabling analysis through micro-simulation and cost control as a basis for adoption of public policies.	The estimated value of the costs associated with the record of the state and design proposal is EUR 27,000, while for the development of the IT system itself ESF funds will be used - data		3.3.3.1. Creating surveys of business processes of social welfare centres and other bodies involved in the process of social benefits (CES, CPII, CHIF), with an emphasis on the process of the realisation of social benefits.	December 2017	MDFYSP (MH, MSE, CPII, CES, CHIF, PA)



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	management of such benefits, and allocating financial aid to those in greatest need.			exchange modules, and the required infrastructure upgrade is estimated at about EUR 60,000. Certain savings are expected after implementation in the part related to administrative costs (submission and processing of requests, issuance of certificates, reduction of administrative procedures for the improvement of business processes).		3.3.3.2. Determining the SocSkrb IT system status and the need to improve functionalities related to social benefits.	March 2018	MDFYSP (MH, MSE, CPII, CES, CHIF, PA)
					Agreement on Cooperation to Encourage Application of Information and Communication Technology for the needs of MDFYSP between MDOMSP, MH, CHIF, MLPS, CPII, MPA and CARNet.	3.3.3.3. Establishing the exchange of information on the right to maternity and parental support and child allowance.	June 2018	MDFYSP (MPA, MLPS, MH, ULRSG, APIS)
						3.3.3.4. Creating modules in SocSkrb IT system for data exchange.	September 2018	MDFYSP (MPA, MLPS, MH, ULRSG, APIS)
						3.3.3.5. Establishing the exchange of information on the right to child allowance and maternity and parental support.	December 2018	MDFYSP (MPA, MLPS, MH, ULRSG, APIS)
						3.3.3.6. Establishment of data exchange between ULRSGs and MDFYSP.	December 2019	MDFYSP (MH, MSE, CPII, CES, CHIF, PA)
3.3.4. Provision of e-services from the social welfare system	CSR2: Consolidating the benefits within the social protection system, including special regimes, by harmonising the eligibility criteria and integrating the management of such benefits, and allocating financial aid to those in greatest need.	New e-services will be provided within the e-Citizens service system, with the aim of streamlining the procedure and ensuring greater access to social protection services to a greater number of citizens. Coordination and exchange of data on the use of rights from the social welfare system with other systems will be needed.	Easier exchange of data and submission of applications for realisation of rights. Reducing the time and costs of administering benefits and time and costs for citizens.	Certain savings are expected after implementation in the part related to administrative costs (submission and processing of requests, issuance of certificates, reduction of administrative procedures for the improvement of business processes, greater transparency regarding the rights acquired from the system).	Agreement on Cooperation to Encourage Application of Information and Communication Technology for the needs of MDFYSP between MDOMSP, MPA and CARNet.	3.3.4.1. Ensuring prerequisites for issuing entitlement certificates from the social welfare system through the e-Citizens system.	March 2018	MDFYSP (MPA, CARNet)
						3.3.4.2. Ensuring prerequisites for submission of requests for child allowance and maternity and parental support through the e-Citizens system.	July 2018	MDFYSP (MPA, MH, MLPS, CHIF, CPII, CARNet)
						3.3.4.3. Enabling the submission of requests for rights to other benefits and services in the field of social protection.	December 2019	MDFYSP (MSE, MLPS, CPII, CARNet)



Title of the reform measure	EU Council Recommendation	Short description of the reform measure	Qualitative effect — Description of projected impacts of the measure	Fiscal effect — Total and annual change of Government revenue and expenditure	Legal/administrative instruments of measure implementation	Activities for the implementation of measure	Deadline for the implementation of activities	Implementing authority
<b>3.4. Ensuring the sustainability of the pension system</b>								
3.4.1. Encouraging a longer working life	CSR2: Taking measures to deter early retirement, accelerating the transition to a higher age limit for statutory retirement and aligning the retirement provisions for special categories with general retirement rules by the end of 2016.	In order to achieve the long-term sustainability of the pension system and the adequacy of pensions, parallel interventions will be made in mandatory pensions pillar I and II. Improving the efficiency of the pension pillar I will be achieved by encouraging longer working life by: 1) determining higher penalties for early retirement, 2) accelerating age adjustment for women and men for early retirement and for senior retirement, 3) modifying conditions for senior retirement for long-term insured, 4) enabling retired people to work and use their retirements, etc. Amendments to mandatory pension pillar I will be conducted with a parallel amendment of horizontally related regulations defining the area of medical expertise in pension insurance and the institute of insurance with extended duration. Enhancement of mandatory pension pillar II will be achieved by redefining the portfolio restrictions of pension companies and others by amending the provisions of the Mandatory Pension Funds Act.	Longer stay in the labour market and discouraging early retirement.	Measures to encourage longer working life will require increased government spending, expected due to increased retirement inflows caused by stricter terms, in the amount of approximately 30 million in 2017 and 90 million in 2018, while in 2019 pension expenditures will be reduced by about HRK 115 million. After 2019, government budget expenditures will continue to decrease significantly in relation to current legal regulations due to longer working life and expected reduced inflow of new pension beneficiaries.	Pension Insurance Act; Act on the Central Register of Insured Persons; Mandatory Pension Funds Act	3.4.1.1. Amendments to the Pension Insurance Act; Act on the Central Register of Insured Persons; Mandatory Pension Funds Act.	December 2017	MLPS
3.4.2. Improving the pensionable service system with extended duration	CSR2: Taking measures to deter early retirement, accelerating the transition to a higher age limit for statutory retirement and aligning retirement provisions for special categories with general retirement rules by the end of 2016.	The scope of jobs and occupations where service life is extended and the degree of increase in service life for certain jobs and occupations will be reduced in line with the conducted audit and recommendations of occupational professionals for health and safety at work, and age limitation institute for acquisition of the right to retirement pension will be redefined.	Longer participation in the labour market and later retirement of certain categories of insured persons.	Potential reduction of State Budget expenditures.	Act on Extended Duration of Pensionable Service	3.4.2.1. Amendments to the Act on Extended Duration of Pensionable Service.	December 2017	MLPS

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3.4.3. Establishing a uniformed methodology of expertise	CSR2: Taking measures to deter early retirement, accelerating the transition to a higher age limit for statutory retirement and aligning retirement provisions for special categories with general retirement rules by the end of 2016.	Establishing a uniformed methodology of expertise for the purpose of simplification and efficiency of the expertise procedure.	Revised and simplified expertise procedure will enable timely realisation of rights in different systems.	The measure is of normative nature.	Regulation on methodologies of expertise	3.4.3.1. Drafting of the Regulation on the methodology of expertise.	May 2017	MLPS





## ANNEXE 2: MEASURES TO ACHIEVE THE OBJECTIVES OF EUROPE 2020 STRATEGY

Main objectives	Title of measure	Short description of measure	Activities for the implementation of measure	Deadline for the implementation of activities	Implementing authority
1. EMPLOYMENT					
To increase the employment rate to 75% for men and women between the ages of 20 and 64, including greater participation of youth, older workers and persons with lower education.	1.1. Promoting the employment of the long-term unemployed	The measure will enable provision of services to improve the transition from long-term unemployment to employment.	1.1.1. Adoption of the Terms and Conditions of use of funds for the implementation of active employment policy measures from the jurisdiction of CES in 2017.	March 2017	MLPS
			1.1.2. Implementation of measures in accordance with the Terms and Conditions of use of funds for the implementation of active employment policy measures from the jurisdiction of CES in 2017.	continuous	MLPS
	1.2. Improving labour market outcomes for young unemployed persons	Quick activation on the labour market will provide greater motivation for young people to seek employment, as well as the rapid upgrade of the knowledge and skills acquired by persons during education.	1.2.1. Adoption of the Terms and Conditions of use of funds for the implementation of active employment policy measures from the jurisdiction of CES in 2017.	March 2017	MLPS
			1.2.2. Implementation of measures in accordance with the Terms and Conditions of use of funds for the implementation of active employment policy measures from the jurisdiction of CES in 2017.	continuous	MLPS
2. RESEARCH AND DEVELOPMENT					
Improve the research and development environment, particularly with the goal of raising the level of combined public and private investments in the R&D sector by 3% of the GDP.	2.1. Strengthening the national innovation system and innovation potential of the economy	Adoption of the Act on the State Aid for Research and Development Projects aims at enabling tax relief to companies who invest in research and development projects. The objective is to increase private sector investment in research and development and indirectly encourage private and public sector cooperation on joint research and development projects.	2.1.1. Adoption of the Act on the State Aid for Research and Development Projects.	September 2017	MSE (MEC)
			2.1.2. Adoption of the Ordinance on the state aid for research and development projects.	December 2017	MSE (MEC)
	2.2. Improving the quality management system and financing of scientific organisations and fostering scientific excellence	Within the OP “Effective Human Resources 2014-2020”, one of the main funding priorities is defined in thematic objective 10. Specific objective 10.2.3. Improvement of the conditions for Croatian researchers; project Increasing Access to Electronic Sources of Scientific and Technical Information - E-sources launched in November 2016 (total funding of HRK 133.7 million).	2.2.1. Implementation of the project Increasing Access to Electronic Sources of Scientific and Technical Information - E-sources.	2020	MSE
3. CLIMATE CHANGE AND ENERGY SUSTAINABILITY					
Reduce greenhouse gas emissions by 20% compared to 1990 levels.	3.1. Reducing greenhouse gas emissions	Greenhouse gas emissions in terms of assessing the achievement of the objective are monitored on a yearly basis.	3.1.1. Monitoring of greenhouse gas emissions.	continuous	MEE



Main objectives	Title of measure	Short description of measure	Activities for the implementation of measure	Deadline for the implementation of activities	Implementing authority
	3.2. Promoting energy efficiency and renewable energy sources in order to reduce greenhouse gas emissions	Energy efficiency measures include economic, regulatory, fiscal, information and educational activities.	3.2.1. Energy efficiency in building construction, service sector, equipment, industry, energy, use of low carbon fuels, electric vehicles, ecological public transport, improved vehicle efficiency - encouraged by EU funds, national EPEEF funds, HAVOR and others.	2020	MEE
		Measures for renewable energy sources include economic, regulatory, fiscal activities.	3.2.2. Increasing the use of renewable energy sources in the energy sector, replacement and use of low carbon fuels, electric vehicles - encouraged by EU funds, national EPEEF funds, HROTE and others.	2020	MEE
			3.2.3. Adoption of the Strategy for the Low-Carbon Development of the Republic of Croatia until 2030 with a view to 2050	June 2017	MEE
			3.2.4. Adoption of the Strategy for Adaptation to Climate Change in the Republic of Croatia until 2040 with a view to 2070	March 2018	MEE
	3.3. Mitigation and adaptation to climate change	Implementation of the Rural Development Programme 2014-2020.	3.3.1 Decreasing the use of fertilisers, improvement in management of: crops, animals, animal waste, pastures, grasslands and organic soils in accordance with the Rural Development Programme of the Republic of Croatia for the period 2014-2020 and the associated state aid.	2020	MEE
	3.4. Transition to a circular economy	In order to reduce waste production in the Republic of Croatia, it is necessary to set up Reuse Centres whose activity is to collect, restore or repair and re-distribute products that would otherwise become waste. Activities of such centres represent waste prevention activities. Disposal fee is an economic instrument that enables the sustainability of the waste management system and transition to a circular economy with a view to reduce the amount of waste disposed on landfills and increase separate collection and use of waste. Measures are in line with the Waste management Plan for the period 2017-2022.	3.4.1. Construction of reuse centres, construction work on existing buildings to adapt them to their new purpose. Procurement of equipment. Production and distribution of promotional material, organisation of workshops, etc.	2022	MEE, MCPP, civil sector, private investments
			3.4.2. Adoption of the Regulation on communal waste (Introduction of billing for collection of mixed and biodegradable municipal waste by quantity).	December 2017	MEE, EPEEF, ULSG
			3.4.3. Adoption of the Regulation on the manner and conditions for determining the status of waste landfill compliance (introduction of waste disposal fee).	December 2017	MEE, EPEEF
Increase the share of renewable energy sources in gross total energy consumption to 20%.	3.5. Increasing the share of renewable energy sources in gross total energy consumption	The measure involves the implementation of the National Action Plan for Renewable Energy by 2020. Quotas will be defined for encouraged production of electricity from renewable energy sources (RES) by technology.	3.5.1. Creating a framework for further implementation of renewable energy sources, strengthening of sustainability criteria through new technologies, introducing market principles, increasing share of heating and cooling from RES, decarbonisation and energy diversification in transport.	2020	MEE
Increase energy efficiency by 20%.	3.6. Increasing energy efficiency	Increasing energy efficiency of buildings in order to reduce CO2 emissions and increasing the share of RES in direct energy consumption will be achieved by energy renewal of housing,	3.6.1. Encouraging energy efficiency of residential, public and commercial buildings.	2020	MCPP
			3.6.2. Energy audits and energy certification of buildings.	2017-2018	MCPP



Main objectives	Title of measure	Short description of measure	Activities for the implementation of measure	Deadline for the implementation of activities	Implementing authority
		public and commercial buildings. The National IT Energy Certification System will be introduced, which will enable the calculation of energy performance of buildings and drafting of energy certificates, which will lead to consolidation of calculation of required energy for heating and cooling buildings according to applicable standards. Adoption of the Energy Efficiency in Building Construction will facilitate the application of provisions and enable easier and faster modification and adaptation procedures in accordance with the EU Directive EPBD. The National Energy Efficiency Action Plan for the period 2017-2019 includes 40 implementation measures for savings in primary and final energy consumption.	3.6.3. Adoption of the National IT Energy Certification System.	2018	MCPP
			3.6.4. Adoption of the Act on Energy Efficiency in Building Construction.	2018	MCPP
			3.6.5. 40 implementing measures in the field of energy efficiency, of which in the field of building construction: Encouraging energy efficiency of residential, public and commercial buildings; Energy audits and energy certification of buildings; National IT Energy Certification System; Adoption of the new Act on Energy Efficiency in Building Construction.	2020	MEE
4. EDUCATION					
Improve the level of education, particularly by reducing the school drop-out rate to less than 10% and increasing the share of population aged 30-34 who have completed tertiary education to at least 40%.	4.1. Reducing early school leaving rate	Early abandonment of education has always been at a low level in the Republic of Croatia. No special measures are planned that would be targeted solely on early abandonment of education, but the improvement of the system and its development also takes into account the professional training of teachers and professional associates.	4.1.1. Professional trainings of teachers and professional associates.	continuous	MSE
	4.2. Increased share of population aged 30 to 34 who completed tertiary education	Increasing the number of scholarships for students with lower socio-economic status from 5,000 to 10,000 ESF scholarships. Scholarships for studying in STEM areas will be introduced; 3,000 scholarships a year. It is planned to increase the capacity of student accommodation through the funds from OP “Competitiveness and Cohesion 2014-2020”, and by the end of 2018, 1,850 beds will be provided from ERDF funds (HRK 438.18 million). Current capacity is 11,028 beds.	4.2.1. Increasing the number of scholarships for students with lower socio-economic status.	October 2017	MSE
			4.2.2. Introduction of scholarships for STEM areas.	October 2017	MSE
			4.2.3. Increasing student accommodation capacities.	continuous	MSE
5. REDUCTION OF POVERTY AND SOCIAL EXCLUSION					
Promote social inclusion, in particular through the reduction of poverty, in order to reduce the number of persons at risk of poverty and social exclusion by 20 million.	5.1. Providing humanitarian aid in kind and other support programmes to the most deprived - Fund for European Aid to the Most Deprived (FEAD)	Ensuring conditions for combating poverty, social exclusion, preventing the emergence of new categories of the poor and reducing inequalities in society through the establishment of a coordinated support system for groups at risk of poverty and social exclusion. By providing school meals for children at risk of poverty, it is planned to include 586 primary schools within the planned fund of HRK 25 million, while poverty alleviation is planned by providing aid to about 100,000 people, for which HRK 49 million is planned.	5.1.1. Providing humanitarian aid in kind and other support programmes to the most deprived (FEAD).	October 2017	MDFYSP



Main objectives	Title of measure	Short description of measure	Activities for the implementation of measure	Deadline for the implementation of activities	Implementing authority
	5.2. Establishment of a coordinated support system for groups at risk of poverty and social exclusion	Through the project “Strengthening the Institutional Capacities of the Social Welfare System to Improve the Opportunities/Routing of the Social Welfare Programme and Reducing Poverty”, opportunities for social welfare targeting programmes will be improved to increase social inclusion of vulnerable groups and reduce poverty. To this end, new poverty monitoring indicators will be established, which will enable early identification of families and children at risk of poverty.	5.2.1. Implementation of twinning project “Strengthening the Institutional Capacities of the Social Welfare System to Improve the Opportunities/Routing of the Social Welfare Programme and Reducing Poverty”.	December 2017	MDFYSP
	5.3. Development of quality foster care and even distribution of accommodation in foster families across the Republic of Croatia	The new Foster Care Act will provide the prerequisites for the development of professional and specialised fostering, as well as education programmes for foster parents aimed at empowering them to face ever-increasing challenges in the field of foster care services.	5.3.1. Adoption of the new Foster Care Act.	December 2017	MDFYSP
	5.4. Intensifying the process of deinstitutionalisation and transformation of social welfare homes	In implementing deinstitutionalisation, it is important to ensure provision of services in the community, and to transform and improve existing services in the homes for users who continue to use the services of the institution. MDFYSP anticipates that 15 of the total of 31 social welfare homes and 5 of the total of 20 social welfare centres will apply for the infrastructure enhancement projects in 2017. A total of HRK 251.7 million was secured through ERDF, while HRK 203 million was secured through the ESF.	5.4.1. Intensifying the process of deinstitutionalisation of social welfare homes.	continuous	MDFYSP
	5.5. Financing of long-term civil organisations’ programmes with the aim of developing and expanding the network of social services	In March 2017, a call for applications for three-year programmes of civil society organisations was launched with the aim to develop and expand the community service network for the purpose of preventing institutionalisation and increasing the social inclusion of beneficiaries. During the three-year period, about 130 programmes are planned to be funded, for which allocation of HRK 32 million is planned from part of the revenue from games of chance.	5.5.1. Implementation of the call titled “Development and expansion of social services network”.	July 2017	MDFYSP
	5.6. Co-funding the cost of education for students of lower socio-economic status and students with developmental disabilities	In order to co-finance the costs of education of pupils and students with lower socio-economic status and students with developmental disabilities, based on the Education Act, regulations (Ordinances and Decisions) are being drafted regarding the financing and co-financing of textbooks and engagement of teaching assistants.	5.6.1. Co-funding the Cost of Education for Students of Lower Socio-economic Status and Students With Disabilities.	September 2017	MSE

